Disruptive Change in the Taxi Business: The Case of Uber

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Occupational licensing has grown steadily in the United States since the 1950s, with nearly one-third of private sector workers currently in jobs covered by occupational licensing requirements (Kleiner and Krueger 2013). In many jurisdictions, taxi drivers are required to obtain an occupational license in order to transport passengers, and drivers are restricted from picking up passengers outside of the jurisdiction that issued their license. In addition, the number of taxi drivers is often limited by the number of medallions that are issued, and fares are often set by regulatory bodies. Although occupational licensing regulations can improve consumer safety and yield other benefits, they can also reduce the efficiency of the economy, raise costs for consumers, and lead to a misallocation of resources.

The innovation of ride sharing services, such as Uber and Lyft, which use Internet-based mobile technology to match passengers and drivers, is providing unprecedented competition in the taxi industry. Weighted by hours worked, there were about half as many Uber and Lyft drivers as taxi and limo drivers operating in the United States at the end of 2015. This paper examines the efficiency of the ride sharing service Uber by comparing the capacity utilization rate of UberX drivers to that of taxi drivers.

Capacity utilization is measured either by the fraction of time that drivers have a fare-paying passenger in the car or by the fraction of miles that drivers log in which a passenger is in the car. Because we are only able to obtain estimates of capacity utilization for taxis for a handful of major cities—Boston, Los Angeles, New York, San Francisco, and Seattle—our estimates should be viewed as suggestive. Nonetheless, the results indicate that UberX drivers, on average, have a passenger in the car about half the time that they have their app turned on, and this average varies relatively little across cities, probably due to relatively elastic labor supply given the ease of entry and exit of Uber drivers at various times of the day. In contrast, taxi drivers have a passenger in the car an average of anywhere from 30 percent to 50 percent of the time they are working, depending on the city. Our results also point to higher productivity for UberX drivers than taxi drivers when the share of miles driven with a passenger in the car is used to measure capacity utilization. On average, the capacity utilization rate is 30 percent higher for UberX drivers than taxi drivers when measured by time, and 50 percent higher when measured by miles, although taxi data are not available to calculate both measures for the same set of cities.

Four factors likely contribute to the higher utilization rate of UberX drivers: (i) Uber’s more efficient driver-passenger matching technology; (ii) Uber’s larger scale, which supports faster matches; (iii) inefficient taxi regulations; and (iv) Uber’s flexible labor supply model and surge pricing, which more closely match supply with demand throughout the day.

I. Assembling Data on Capacity Utilization Rates

Ideally, we would like to have data on the fraction of time in which taxi and Uber drivers have a fare-paying customer in their car each moment that they work. There is no single
source of data for taxi drivers, however, so we must piece together information for cities where data are available. For New York City, we use micro-level daily data on anonymized taxi drivers’ work hours and time with the meter running from the New York City Taxi and Limousine Commission (NYCTLC) for trips taken in 2013. For San Francisco, Vincent Leah-Martin provided us with tabulations of similar micro-level data that he obtained from one midsized taxi fleet. For Boston, the fraction of total hours worked that taxi drivers had a passenger in their car was reported in the Nelson/Nygaard (2013; Figure 4–1) report for the City of Boston for three days in 2013. Information on miles driven by taxi cabs is not available for these cities.

For two cities, Seattle and Los Angeles, we have information on miles driven (total and with a passenger) aggregated across all taxi drivers. Aggregate revenue miles and aggregate miles driven by taxi drivers are available for 2013 and 2014 for Seattle from Soper (2015). For Los Angeles, comparable information at a monthly frequency from January 2009 to January 2015 is available from the Los Angeles Department of Transportation (LADOT).

There are a variety of ways to compute the capacity utilization rate. First, consider a situation where we have access to individual-level data on \( N \) drivers’ work hours in a given day, denoted \( H_i \), and the number of hours in which they had a fare-paying passenger in the car, denoted \( h_i \). We can compute the average fraction of time that a driver is working in which he or she has a passenger in the car, which we denote \( f^h \):

\[
f^h = \frac{\sum(h_i/H_i)}{N} = \frac{\sum f^h_i}{N},
\]

where \( f^h_i \) is \( h_i/H_i \), the capacity utilization rate of driver \( i \) on the day in question.

Alternatively, in some instances data on passenger-fare hours aggregated across all drivers and total work hours of taxi drivers are available. In these cases, we compute the aggregate capacity utilization rate, denoted \( F^h \):

\[
F^h = \frac{\sum h_i}{\sum H_i} = \frac{\sum w_i f^h_i}{\sum H_i}.
\]

Notice that \( F^h \) is a weighted average of \( f^h_i \), where the weights, \( w_i \), are each driver’s share of total work hours, \( H_i/\sum H_i \). If drivers’ hours do not vary much, or if driver hours and \( f^h_i \) are weakly correlated, then \( f^h \) and \( F^h \) will be similar.

To compute capacity utilization rates with respect to miles driven, as opposed to time, we simply replace \( h_i \) and \( H_i \) with miles driven while a passenger is in the car and total miles driven in the day, denoted \( m_i \) and \( M_i \), respectively. The only information we could obtain on capacity utilization rates for miles driven for taxi drivers is of the \( F \)-type aggregate measure.

At our request, the Uber research staff kindly provided us with statistics on \( f \) and \( F \) based on Uber’s administrative database for Uber drivers in the five cities for which we were able to collect data on traditional taxi drivers. We focus on UberX drivers because that is the largest and fastest growing category of Uber drivers. Work time \( H_i \) was defined as the total amount of time that a driver’s app was on, while \( h_i \) was defined as the time in which a passenger was in the car. With the Uber data, it is possible to calculate capacity utilization by either \( f \) or \( F \), which is fortunate because daily work hours vary more across Uber drivers than they do across taxi drivers, who typically work seven or eight hour shifts, or longer.

One difference between Uber drivers and taxi drivers is that Uber drivers are not restricted from picking up passengers in one particular jurisdiction. The sample of UberX drivers in each city consisted of those who picked up at least one passenger in the city during the day, and those drivers were followed throughout the day regardless of where else they might have

2 See Faber (2015) for a description of the dataset.

3 See Leah-Martin (2015) for further details on the dataset. The data we report pertain to July, August, September, and October of 2013.

4 The data were from credit card terminal data, which record information for every trip, regardless of whether a credit card was used. The dates were January 9, April 11, and July 13. The sample of data for Uber drivers correspond to the same days of the week (and proximity to the Boston Marathon, i.e., the Thursday before the marathon) for those months in 2015: January 14, April 16, and July 11.

5 To be precise, the sample consists of UberX, UberXL, UberPool, and UberSelect drivers. We refer to all drivers in these service categories as UberX drivers. UberBlack drivers, who typically require a commercial driver’s license, are excluded.
traveled.\textsuperscript{6} As a practical matter, qualitatively similar results are obtained if the sample is limited to drivers whose first pickup was in the city. Because computing mileage driven is time intensive, a random sample of 2,000 drivers was selected for each city.\textsuperscript{7}

Another issue concerns timing. One could argue that it is desirable to compare UberX and taxi drivers during the same period of time, or one could argue that it makes sense to compute the capacity utilization rate for taxis before Uber entered the market to assess the effect of taxi licensing and regulation, because the presence of Uber could have caused the productivity of taxi drivers to change. Regardless, as a practical matter we are limited by the data available. Due to lags in reporting, the taxi data are from an earlier year than the Uber data. The Uber data pertain to December 1, 2014 through December 1, 2015. For San Francisco the data were restricted to July through October 2015, to match the months of the taxi data, and for Boston the corresponding days of the year were selected to match the taxi data. The fact that the taxi data pertain to a period before Uber made significant inroads into the market likely raises the capacity utilization rate for taxis compared to Uber drivers, as the taxis had less competition for passengers at that time.

II. Findings

Table 1 provides estimates of $f^h$ and $F^h$ for Uber in all five cities, three of which also have data for taxis. Figure 1 summarizes estimates of the mileage-based capacity utilization measure ($F^m$) for Los Angeles and Seattle, the only two cities for which we have been able to obtain information on taxi drivers’ miles.

Regardless of the measure used, the results show a clear pattern: UberX drivers have a substantially higher capacity utilization rate than do taxi drivers in every city except New York, where the utilization rates are very similar. In Boston, the time-based capacity utilization rate $F^h$ is 44 percent higher for UberX drivers than for taxi drivers, and in San Francisco it is 41 percent higher. Notice also that $f^h$ and $F^h$ are very similar where they both are available, consistent with there being little correlation between $f_i$ and $h_i$. As a result, in San Francisco, $f^h$ is 43 percent higher for UberX drivers than for taxi drivers, very close to the differential for $F^h$, and in New York both ratios are close to parity. Across the five cities, UberX drivers have a passenger in their car around half the time that they are working, whereas taxi drivers have a passenger in their car anywhere from 32 percent of the time in Boston to nearly half the time in New York City.

The mileage-based capacity utilization rates ($F^m$) tell a similar story.\textsuperscript{8} In Los Angeles, taxi drivers have a passenger in the car for 40.7 percent of the miles they drive, while UberX drivers have a passenger in the car for 64.2 percent of their miles, resulting in a 58 percent higher

\begin{table}[h]
\centering
\caption{Capacity Utilization Rate (Percent of Work Hours with a Passenger) for Taxi and UberX Drivers, Select Cities}
\begin{tabular}{llllll}
\hline
 & \multicolumn{2}{c}{Taxi} & \multicolumn{2}{c}{UberX} \\
\hline
Boston & NA & 46.8 & 32.0 & 46.1 \\
Los Angeles & NA & 51.7 & NA & 50.3 \\
New York & 48.3 & 50.9 & 49.5 & 51.2 \\
San Francisco & 38.4 & 54.9 & 38.5 & 54.3 \\
Seattle & NA & 43.5 & NA & 43.6 \\
\hline
\end{tabular}
\end{table}

Notes: $f$ is the average across drivers. $F$ is ratio of aggregate passenger hours to aggregate hours worked. Boston taxi data are average of three days in 2013, New York taxi data are for 2013, and San Francisco taxi data are for July–October 2013; Uber data for Boston are for three corresponding days in 2015, Uber data for San Francisco are for July–October 2015, and Uber data for all other cities are for the 12 months ending December 1, 2015.

Sources: Uber Technologies, Inc.; authors’ calculations using NYCTLC Microdata; Leah-Martin (2015); and Nelson/Nygaard (2013); see text for further details.

\textsuperscript{6}One should also be aware that Uber drivers can simultaneously work for Lyft and other ride sharing services. Because Uber lacks information on whether UberX drivers are providing rides to customers through Lyft or other services, the Uber capacity utilization rate probably understates the actual rate that drivers achieve.

\textsuperscript{7}More specifically, a day was defined as running from 4 AM to 4 AM, and a random sample of driver days was selected each period. The periods were selected from 2015 for the days and months corresponding to the available taxi data for Boston and San Francisco, or from December 1, 2014 to December 1, 2015 for the other cities.

\textsuperscript{8}For Los Angeles taxi drivers, $F^m$ is the average value of $F^m$ taken over the 24 months of 2013 and 2014. For Seattle, $F^m$ is the average of the 2013 and 2014 values.
capacity utilization rate for UberX drivers. In
Seattle, UberX drivers achieve a 41 percent
higher capacity utilization rate than taxis in
terms of share of miles driven with a passenger
in the car. Notice also that the capacity utiliza-
tion rates are generally higher when measured
by miles than hours. Across the five cities,
for example, for UberX drivers the average of
$F_m$ is 61.0 percent and the average of $F_h$ is 49.1
percent. (Unfortunately, no jurisdiction reports
data that allow for the calculation of the capac-
ity utilization rate in miles and in hours for taxi
drivers, but looking across cities it appears that
$F_m$ is greater than $F_h$ for taxis as well.) The
mileage-based measure of the capacity utiliza-
tion rate would be higher than the time-based
measure if, for example, drivers arrive early
to pick up some passengers and wait for them
(without turning on the meter), or if drivers park
or drive more slowly in the interval between
dropping off a passenger and picking up a new
one, or if drivers take breaks during their shifts
that are counted as work hours.

For taxis in Los Angeles and Seattle, we can
look at variations in $F_m$ over time. In Los Angeles
the capacity utilization rate was relatively sta-
ble over time, only varying between 38.6 per-
cent and 42.8 percent in the months between
January 2009 and January 2015. In Seattle, the
rate mostly trended upward from 40.7 percent in
2005 to 45.7 percent in 2013, before dropping to
32.6 percent in 2014, perhaps because of com-
petition from Uber.

Lastly, Figure 2 presents the empirical cumu-
larive distribution functions of $f_k$ for taxi drivers
and UberX drivers in San Francisco. Specifically,
drivers are arrayed by the share of work hours
they have a passenger in the car on the hori-
zontal axis, and the percent falling below each value
is shown on the vertical axis. The differences in
the mean capacity utilization rates are not driven
by a small number of drivers. At all percentiles,
the UberX drivers have a higher capacity uti-
lization rate than taxi drivers. Moreover, if we
look at different time intervals of the day, UberX
drivers in San Francisco have a higher utiliza-
tion rate than taxi drivers at all hours, with the
narrowest gap between 4 PM and 8 PM.

### III. Discussion

There are several possible reasons why UberX
drivers may achieve significantly higher capac-
ity utilization rates than taxi drivers. First, Uber
utilizes a more efficient driver-passenger match-
ing technology based on mobile Internet tech-
ology and smart phones than do taxis, which
typically rely on a two-way radio dispatch sys-
tem developed in the 1940s or sight-based street
hailing. Second, in most cities Uber currently

![Figure 1. Capacity Utilization Rate (Percent of
Miles Driven with a Passenger) for Taxi and UberX Drivers in Los Angeles and Seattle](image1)

**Note:** Los Angeles and Seattle are 2013–2014 and Uber is the 12 months ending December 1, 2015; see text for further details.

**Sources:** Uber Technologies, Inc.; LADOT; City of Seattle, Regulatory Compliance and Consumer Protection Division; authors’ calculations.

![Figure 2. Cumulative Distribution Function of Percent of Work Hours with a Passenger for Taxi and UberX Drivers in San Francisco](image2)

**Note:** Taxi data are for July–October 2013, Uber data are for July–October 2015.

**Sources:** Data provided by Uber Technologies, Inc. and Leah-Martin (2015).
has more driver partners on the road than the largest taxi cab company. Apart from the technology, there are network efficiencies from scale, as pure chance would likely result in an Uber driver being closer to a potential customer than a taxi driver from any particular company given the larger scale of Uber. Third, inefficient taxi licensing regulations can prevent taxi drivers who drop off a customer in a jurisdiction outside of the one that granted their license from picking up another customer in that location. Fourth, Uber’s flexible labor supply model and surge pricing probably more closely matches supply with demand during peak demand hours and other hours of the day.

We cannot explore the importance of all of these factors, but we can explore aspects of some of them. First, for three cities—New York, Seattle, and Los Angeles—we have capacity utilization rates for UberX drivers who worked at least seven hours in the day. Because taxi drivers tend to work much longer shifts than UberX drivers, one possibility is that the longer work day reduces productivity, or the tendency to work during both slow and busy times of the day lowers the capacity utilization rate of taxi drivers. For UberX drivers, however, the capacity utilization rates were essentially identical for the drivers who worked at least seven hours in the day as they were for drivers as a whole. This suggests that the exit and entry of UberX drivers during the course of the day equilibrates the market so that drivers achieve essentially the same utilization rate regardless of how long they work, or that longer work shifts are not the central reason why taxi drivers have lower utilization rates than Uber drivers.

Insofar as matching technology is concerned, Frechette, Lizzeri, and Salz (2015) conducted an elaborate simulation exercise where they estimated a dynamic general equilibrium model of the taxi market in New York City in 2011–2012, allowing for search frictions and endogenous driver entry and stopping decisions. In one counterfactual simulation, they changed the matching technology and assumed that drivers knew the location of the closest passenger. Although this is not the same as switching to the Uber app, it gives a flavor for the potential role of more efficient technology for matching drivers and passengers. This policy was estimated to raise the fraction of work time with a passenger by 7.2 percent. Table 1 indicated that the capacity utilization rate is 5.3 percent or 3.5 percent higher for Uber than taxi drivers in New York. So these findings suggest that differences in driver-passenger matching technology can more than account for the minor difference in capacity utilization rate between taxi drivers and UberX drivers in New York City.

An important caveat, however, is that New York City is an apparent outlier in that the capacity utilization rates of taxi and UberX drivers are much more similar in New York than in other cities we have been able to examine. It is quite plausible that the high population density of New York City supports more efficient matching of taxis and passengers through street hailing than is the case in other cities. Indeed, our results suggest that New York is the only city where taxi and UberX drivers achieve a similar capacity utilization rate.

Regardless of the reasons for the higher capacity utilization rate of UberX compared to taxi drivers, our findings have implications for the efficiency of for-hire drivers. Averaging across the five cities with available data (and across the two measures), the capacity utilization rate is 38 percent higher for UberX drivers than for taxi drivers. Ignoring fixed costs, if fares are linear, this implies that UberX drivers could charge 28 percent \( (= 1 - 1/1.38) \) less than taxis and earn the same amount of revenue per hour. In Los Angeles, which exhibited the biggest difference in capacity utilization, fares could be 37 percent lower. It is also worth emphasizing that differences in utilization rates have implications for resources other than passengers and drivers. For example, for every mile that taxi drivers in Los Angeles drive with a passenger in the car, they drive 1.46 miles without a passenger; the comparable figure for UberX drivers is 0.56 mile. This difference likely translates to greater traffic congestion and wasteful fuel consumption.

Lastly, our results bear on the literature on occupational licensing. Although occupational licensing can provide many benefits for consumers, workers, and society, it could also reduce efficiency and distort markets. Occupational licensing has grown even in fields where there is little public safety or other societal benefit
from licensing restrictions. Given that vested interests that benefit from occupational licensing (including the jurisdictions that collect licensing fees) have made it difficult to repeal occupational licensing, one way in which inefficient, unnecessary, and counterproductive occupational licensing can be reduced is through disruptive change, such as that brought about by a new technology.

REFERENCES


