

**TAXI REGULATORS MAY EVENTUALLY NEED TO STEP IN TO SET FARES**

# The good and bad of dynamic pricing

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Last week, ride-hailing platform Grab announced that it would partner five taxi companies (SMRT, Premier, Trans-Cab, HDT Singapore Taxi and Prime) to introduce dynamic pricing for taxi rides booked through the app.

This came after the taxi firms informed the Public Transport Council a few weeks ago of their plans to introduce fares that fluctuate with commuter demand.

This unprecedented move copies a somewhat controversial practice common to the “ridesharing” industry, which uses real-time data on commuter demand to assign fares to rides.

ComfortDelGro, the largest taxi operator, with 60 per cent of the market share, has adopted a wait-and-see approach for now, even though the company had previously expressed interest in dynamic fares.

More details on how Grab’s dynamic pricing would work are still forthcoming.

The company announced that the service would be publicly available from Wednesday and branded as “JustGrab” in its app. The service will offer dynamic but upfront fares to passengers, and then despatch ei-



ther a private-hire car or a taxi for pickup. Passengers who flag a cab on the street will still pay a metered rate, although Grab expects that fares offered through JustGrab will be lower than metered rides during periods of low demand.

Given the debate on dynamic pricing, it may be worthwhile to examine this practice in more detail, as well as possible unintended consequences.

The ability to discriminate between passengers by price has largely been eliminated from the taxi industry since the days of pirate taxis, when drivers and passengers had to bargain for fares. The introduction of mandatory taxi meters and the eradication

**A SMRT taxi in the queue at Lucky Plaza. From Wednesday, Grab will offer dynamic but upfront fares to passengers under the name JustGrab.**

PHOTO: KOH MUI FONG

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of pirate taxis have led to a system of predictable distance-based fares.

While this reduced the confusion around fares, their fixed nature has resulted in frequent mismatches between demand and supply. Commuters who may be willing to pay more for rides during peak periods are not allowed to do so, and drivers who may be willing to ferry passengers for less during lull periods are similarly barred from picking up such fares.

The current confusing array of surcharges is a result of past attempts to reduce supply-demand mismatches by introducing a small degree of variation in fares.

Surcharges increase fares during

peak hours, at some high-traffic locations such as the airport and integrated resorts, and for commuters who are willing to book an immediate ride. Such surcharges attract more drivers and nudge some commuters to explore alternative modes of transport.

This system of surcharges sufficed until the emergence of “ridesharing” companies such as Uber and Grab, which use real-time data on commuter demand to vary fares instantaneously to allocate rides.

Although this practice of “surge” pricing during periods of peak demand may be economically efficient at matching passengers to drivers, it has not been without controversy.

Companies have faced accusations of price-gouging for charging exorbitant fares during emergencies such as the terrorist attack in Sydney in December 2014, when the minimum fare for an Uber ride rocketed to an eye-watering A\$100 (S\$107).

Singaporeans voiced similar complaints of Uber fares going up to five times the normal rates in July 2015 following a massive disruption in MRT operations.

Such incidents highlight how the market-efficiency imperative may collide with our moral intuition that it is wrong to ration resources by price discrimination in some situations, especially when it comes to the allocation of essential public services.

For example, although private patients can enjoy faster access to healthcare in Singapore, no sick person is denied healthcare purely on the inability to pay. We employ a system of queues to ration publicly-subsidised healthcare, ensuring that everyone

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eventually gets treated.

Similarly, taxis are seen as providing a somewhat essential public service in Singapore in the form of accessible, on-demand transport. Because of this, they are given operational privileges not granted to other vehicle types.

For example, only taxis are allowed to pick up street hails, use publicly-funded taxi stands, and enter sensitive locations such as Jurong Island without prior clearance. Moreover, taxis are exempted from child-seat rules when carrying passengers below 1.35m in height, precisely because they are considered “public service vehicles”.

In exchange for these privileges, taxis were forced to charge mostly fixed prices to ensure that commuters who were willing to wait would eventually get access to transport.

At least this was the case until the industry was deregulated in 1998 and operators were given leeway to vary their fares.

Since then, taxis have existed in a grey zone of being neither fully public nor private transport. Because of the semi-public service nature of taxis, transport authorities have intervened occasionally even after deregulation to ensure that the fares imposed by different companies were not egregiously different, and to ensure that taxis were used largely in their intended public service function rather than as personal vehicles.

With the current rush towards dynamic fares, regulators will need to watch closely for any negative impact on this public service function of taxis.

Grab has downplayed concerns that surge pricing could result in cabbies shunning passengers on the streets, adding that cabbies have indicated that it does not make economical sense for them to cruise without any passengers.

Yet we cannot discount the possibility of drivers being tempted to stop picking up street hails during peak hours to drive up booking demand. This can already be seen in our current system of surcharges when some taxis stop picking up passengers just before midnight in order to earn the 50 per cent midnight surcharge.

That being said, pooling taxis and private-hire cars together could very well improve the availability of rides and reduce fare fluctuations. All things considered, the long-term effects of this widespread adoption of dynamic fares remain unclear.

If the practice eventually adds to commuter frustration or leaves behind disadvantaged segments of the population, including those unable to use booking apps, there may be public pressure for regulators to step in once again in setting taxi fares or to limit how “dynamic” taxi fares are allowed to be.