THE COSTS OF DOING BUSINESS

Why lawmakers must hold the ride-hailing industry accountable as they undermine their workers and play by their own rules

TRANSPORTATION TRADES DEPARTMENT, AFL-CIO
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Public transportation is the glue that binds communities together. It connects Americans from all walks of life to home, work, and school, spur local and regional economic growth, and provide good jobs in operations, maintenance, and design.

This is no accident. Decades of carefully crafted policy at the local, state, and federal levels has enabled our nation's public transportation networks to deliver safe, reliable, and efficient service at affordable prices. These services are provided to all Americans – regardless of socioeconomic status or physical ability – and are correctly touted for their environmental benefits.

Yet, the decades-long promise of public transportation is now threatened by a severe lack of resources. Shoestring budgets brought on by years of chronic underfunding at all levels of government have prevented agencies from growing to meet current demands.

Meanwhile, a new threat to public transportation, and the communities who rely on it the most, has emerged in the form of unfair, unregulated competition that believes it is entitled to play by a different set of rules.

Ride-hailing companies like Uber, Lyft, and Via are competing directly with public transit for both customers and, if they have their way, public dollars, while operating under their own terms outside of the regulatory framework that applies to public transit systems.

Even worse, their current predatory business models trap drivers in low-wage, no-benefit positions, offer no guarantee to customers that services will be safe or equitable, and contribute questionable economic benefits and adverse environmental effects to the communities in which they operate.

For these reasons, the Transportation Trades Department, AFL-CIO (TTD), is calling on public transportation agencies and lawmakers to examine the exploitative practices of ride-hailing companies and consider the economic and social impacts those practices have on local communities when weighing how to spend limited federal transportation dollars.

BACKGROUND

In Search of a Sustainable Business Model

Over the past ten years, ride-hailing companies have generated significant demand for their services, with nearly 40 percent of Americans having now used a ride-hailing app.[1] In doing so, they have radically transformed both models and expectations for mobility and employment. But the key feature that drives these companies' popularity—relatively affordable and convenient service—is simply not sustainable. Their current business model artificially drives down prices by classifying employees as independent contractors, often paying them less than minimum wage, avoiding local and federal regulations, and massively subsidizing trip costs through billions in private capital.

It is no wonder then, that these companies are seeking sustainable revenue in other markets: food delivery, on-demand bicycles and scooters, automated vehicle deployment, and partnerships with public transportation providers. In some regards, these have been positive steps. For example, bike-sharing services provide mobility options and boost transit ridership, and workers who are classified correctly as employees in that industry have successfully exercised their right to form and join unions across the country.

However, these same companies should not be allowed to undercut public transportation by avoiding regulation while also competing with public transportation providers in seeking federal funding for the provision of their own services. We cannot stop Wall Street investors from pouring billions into these corporate entities, but we can ensure these same entities are not permitted to prey on public transportation and fleece the taxpayer.

Unfortunately, the ride-hailing industry has demonstrated a pattern of bad behavior that lawmakers cannot ignore. From day one, ride-hailing companies have fought nation-wide to bypass regulations, creating a regime that favors profits over worker and passenger safety by aggressively working to preempt local decision-making, a tactic one recent report aptly referred to as the "buy, bully, and bamboozle" strategy.[2] Despite the success of their efforts to define their own regulatory structure and avoid what they view as a costly patchwork of regulations, these companies have failed to demonstrate a clear path toward long-term profitability for their shareholders.[3] Put simply, to turn a profit, ride-hailing companies must either increase fares or cut driver pay.

Yet, because of fierce competition in the industry, neither is possible. Incidentally, it should be no surprise that the ride-hailing industry is exploring ways to eliminate drivers altogether through automated vehicle technology.[4]

We have long known that the ride-hailing industry sees competing with public transportation for riders as a growth strategy.[5]

Yet, we have seen a startling pivot in recent months. It is now evident that these companies no longer see competition with public transportation as enough to drive profit. Instead, they now plan to go directly after federal public transportation funding themselves to pad their losses and help prop up their currently unsustainable business models. In other words, if they cannot turn a profit for their shareholders, they will just ask the American taxpayer to do it for them.

The Growing Ecosystem of Transit and Ride-Hailing Partnership

As far back as 2015, the United States Department of Transportation (USDOT), under the administration of President Barack Obama, began showing significant interest in propping up ride-hailing as a mobility solution for cities. In a report issued by the USDOT, then Secretary of Transportation Anthony Foxx (now Chief Policy Officer at Lyft) highlighted proposals by cities to subsidize ride-hailing trips using public funds for first-mile/last-mile connections to transit as an example of a, "future transportation system that meets the needs of all city residents." [6]

The federal government's interest in ride-hailing platforms and efforts to integrate them into our transportation network have only increased since then. The USDOT's Integrated Mobility Innovation and Mobility on Demand Sandbox Programs, for example, use federal funding to subsidize for-profit companies like Uber, Lyft, and Via as they seek new ways to integrate their own services into public transportation. [7] Congressional committees have also shown interest in the growing number of partnerships between transit agencies and mobility on-demand services, including ride-hailing platforms. [8]

Yet, the environment facilitated by USDOT for new technologies is slowly edging its way into formal policy, with seemingly no thought given to the potential downsides of these partnerships. For example, in April 2019, the Federal Transit Administration (FTA) took early steps towards normalizing the use of ride-hailing platforms in cooperation with or as a substitute for public transportation.

TTD's public comment on that notice provides a further exploration of FTA's actions and why we believe this is such an ill-advised approach.[9] TTD recognizes the opportunity that on-demand services offer and believes app-based microtransit and first-mile/last-mile connections to transit can be an exciting new way to drive growth in public transportation. To that effect, we welcome the opportunity to work with any partner that is advocating for more and better public transportation services.

However, we expect partners in innovation to subscribe to the promise of public transportation established by more than 50 years of federal precedent. That is, it must be equitable and accessible to all, affordable, safe, reliable, and that those who work in this sector must earn fair, living wages. Unfortunately, so far, the ride-hailing industry has not lived up to these expectations.

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MEETING THE PROMISE OF PUBLIC TRANSPORTATION

Employee misclassification and driver pay

Contracting with or outsourcing services to for-profit ride-hailing companies may seem like an appealing solution for cash-strapped transit agencies. However, the relative affordability of Uber, Lyft, and Via—which makes them seem like such an attractive option—is rooted largely in the fact that they exploit their workers. By misclassifying them as independent contractors, these companies artificially and temporarily drive down the true costs of their services by passing off operating costs such as vehicle maintenance and insurance onto their drivers.[10] This is an unsustainable model for riders and a punitive model for workers that both lawmakers and transit agencies must see for what it is.

Federal transit policy has long ensured that the use of federal funding for public transportation comes attached with strong labor protections, which protect the right to collectively bargain. It is because of those policies that the average hourly wage for a bus driver is nearly $20 and as high as $40 in some cities.[11] In addition to paying living wages, union jobs in the public transportation sector come with good benefits, including overtime, sick leave, flexible scheduling, health insurance, and pension plans. Unions in the public transportation sector have also championed programs to create apprenticeship pipelines for workers to gain new skills, adapt to and embrace new technologies, and earn better pay.[12]

By contrast, Uber and Lyft lure drivers with the promise of high earnings, but slash them to the bone once they establish a strong foothold in a market.[13] Many drivers make less than the minimum wage of the city they are operating in, and worse still, there have been reports of workers making as little as $3.75 an hour after expenses.[14] At the same time, these companies have invested millions fighting efforts to classify workers as employees, making it all but impossible for drivers to organize and collectively demand fair treatment and living wages.

To be sure, there have been victories for workers. The Dynamex California Supreme Court decision and the passage of AB 5 in California, for example, make clear that nearly all platform workers must be classified as employees.[15] While AB 5 is only a first step in giving drivers the right to collectively bargain, Uber, Lyft, and others have seen it as such an existential threat to their bottom lines that they plan to invest $90 million into a ballot measure to overturn the law.[16] Nonetheless, AB 5 has already provided lawmakers across the country with a valuable model for empowering workers, who—for no other reason than ride-hailing companies' looking to eke out extra profit by stripping them of their deserved rights—have been wrongly classified as independent contractors.

Effects on existing transit service and congestion

Despite claims by the ride-hailing industry that they intend to complement existing public transportation, by their own admission, it is clear they intend to undercut these services. In their initial IPO filing, for example, Uber identified public transportation as a $1 trillion market that they could compete for a slice of.[17] Likewise, in a recent presentation, Via's head of public policy argued that subway service is too expensive and that buses are inefficient, suggesting instead that the future of public transportation is their own privatized model.[18]

By shifting riders from high-occupancy vehicles like buses and railcars to small vans or personal vehicles, these companies will do nothing to alleviate one of the greatest problems public transportation can solve: reducing congestion. In fact, a number of studies have shown just the opposite. Ride-hailing platforms have already added 5.7 billion miles of driving annually in just nine of the largest cities in America, a number

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that we expect to grow significantly each year.[19] While pooled rides on services like Uber and Lyft may seem like a way to decrease their overall contribution to additional vehicle miles traveled, studies have shown that low utilization of these services does not offset their traffic increasing effects.[20] Furthermore, studies have shown that companies like Uber, Lyft, and Via are primarily substituting ride-hailing in place of public transit, biking, and walking rather than replacing trips commuters would have taken in their personal vehicles.[21] Beyond adding more VMT to our roads, a significant portion of Uber and Lyft's miles are "deadhead" trips – that is, miles traveled without any passengers in the car.

In some cities, deadhead miles account for between 20 and 50 percent of all trips.[22] While federal, state, and local governments have invested vast resources into improving air quality, ride-hailing may undo those improvements without increasing the efficiency of our transportation network.

We urge lawmakers and transit agencies to give full and careful consideration to the downsides that commuters and communities will bear if public policies encourage services that place significant new pressures on our roads and air quality.

They want to play by their own set of rules in order to gain unfair advantages and keep costs down as they search for a path to profitability—a path that is simply not there without help from taxpayer dollars.

Cost to consumers and equity

Unlike public transportation, ride-hailing platforms are not, and were never, intended to serve all road users equally. The fact is, the majority of ride-hailing platform users come from wealthy households and the average ride cost puts their services squarely out of the hands of lower-income customers.[23] Consider, for example, that the average Chicago Transit Authority fare is $2.69, while Lyft and UberX trips average $18.13 and $17.90 respectively, and Lyft Line and UberPool trips average $14.04 and $9.33, respectively. This means that single-occupancy rides on both platforms average $15 - $16 more than transit services, and shared-ride services average $6 - $11 more.[24]
To make trips using ride-hailing services affordable, transit agencies would have to significantly subsidize these platforms with public money. It would be nothing more than a subsidy for a handful of for-profit companies at taxpayers' expense, with unproven benefits to commuters.

At the same time, ride-hailing companies are placing significant pressure on transit systems, which means reduced fare box collections and ultimately, reduced service in the communities that need public transportation the most. In fact, the effect of Uber and Lyft on transit agencies is so substantial that they may see a nearly 14 percent decline in bus ridership and 10 percent decline in rail ridership over the next 8 years.[25]

As ride-hailing platforms continue to impact bus and rail service, hitting America's most vulnerable populations the hardest, they have shown a shocking disregard for those with ADA needs. Lyft went so far as to claim it is "not in the transportation business" after a federal class-action lawsuit brought against the company exposed its utter disinterest in providing accessible vehicles.[26] Like driver misclassification, this effort to establish a double standard is part of a pattern we see time and again with ride-hailing platforms. They want to play by their own set of rules in order to gain unfair advantages and keep costs down as they search for a path to profitability—a path that is simply not there without help from taxpayer dollars. Again, lawmakers and public transportation agencies must see these companies for what they are: private companies with multi-billion dollar cash burn rates in search of special treatment under federal and state regulations and federal subsidies.

Sidestepping safety

TTD also has serious concerns about ride-hailing companies' history of sidestepping safety regulations, which has already put passengers, drivers, and road users at serious risk.

First, while Uber and Lyft finally limited the consecutive hours their drivers can operate on their platform in one day, these drivers frequently work across multiple platforms including Uber, Lyft, Via, Grubhub, Uber Eats, and others. Many of these drivers rely on the ride-hailing apps as their primary source of income, and work backbreaking hours just to make minimum wage. The results are driver fatigue and health complications, both serious threats to road-user safety.[27] Even with limits to hours of service, companies like Uber and Lyft squeeze their employees to work longer hours if they want to receive the bonuses and incentives that help them earn something close to a living wage.[28]

Shocking reports of sexual assaults, inadequate background checks, and ride-hailing companies covering up wrongdoing should also give policymakers pause when considering whether to reward these companies with federal funding.

A recent investigation, for example, found that Uber coaches investigators to put the company's interest ahead of passenger safety. In one case, a driver was accused of making sexual advances to riders three times before an investigator was assigned to their case.[29] Other horrifying stories show that Uber and Lyft's background check systems have been routinely insufficient, allowing convicted murderers and sex offenders to drive for their services.[30]

Finally, while transit operators are subject to drug and alcohol testing and a number of medical qualification standards, no such requirements exist for drivers on ride-hailing platforms. Countless stories have revealed incidents involving drivers reported or arrested for driving under the influence. Shockingly, one report exposed Uber for not investigating many incidents, for which it was fined over $1 million.[31]

The current behavior of these companies is unacceptable to the American people and should be scrutinized by lawmakers as we seek ways to expand access to transportation.

CONCLUSION

Ride-hailing has undoubtedly become popular with American commuters; but it in no way serves the same goals as public transportation. Rather, this industry serves a handful of wealthy Americans while seeking to undercut public transportation for those who rely on it the most. It does so by creating unfair competitive advantages in the marketplace: paying less than minimum wage, defining its own regulatory structure, and sidelining safety in the name of profit.

TTD welcomes the opportunity to work with any partner that advocates for better and more public transportation services. However, public transportation agencies and lawmakers must consider the exploitative and dangerous behavior of the ride-hailing industry and their unsustainable business model when weighing how to spend limited federal transportation dollars.

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