Case: 16-1008 Document: 20-1 Filed: 05/10/2016 Pages: 4 (1 of 27)

No. 16-1008

In the United States Court of Appeals for the Seventh Circuit

Joe Sanfelippo Cabs, Inc., G.C.C., Inc., Roy WMS, Inc., Frenchy's Cab Company, Inc., 2 Sweets, LLC *Plaintiffs-Appellants*,

v.

City of Milwaukee Defendant-Appellee

v.

Jatinder Cheema and Saad Malik

Intervenors-Defendants-Appellees

On Appeal from the United States District Court for the Eastern District of Wisconsin Case No. 2:14-cv-01036-LA The Honorable Lynn Adelman, United States District Judge

Brief of *Amicus Curiae* Reason Foundation in Support of Defendants-Appellees and Affirmance

Cynthia Fleming Crawford

Counsel of Record

LECLAIRRYAN, a Professional Corporation
815 Connecticut Ave., N.W., Suite 620

Washington, D.C. 20006

202.659.6727

cynthia.crawford@leclairryan.com

Counsel for Amicus Curiae

Pursuant to Fed. R. Civ. P. 29(b), Reason Foundation moves for leave to file a brief as *amicus curiae* in support of Appellees and Affirmance. ¹

Reason Foundation is a 501(c)(3) nonprofit public policy think tank founded in 1978. Its mission is to advance a free society by developing, applying, and promoting libertarian principles, including individual liberty, free markets, and the rule of law. Reason's nonpartisan public policy research promotes choice, competition, and a dynamic market economy as the foundation for human dignity and progress.

Reason produces rigorous, peer reviewed public policy research on a variety of issues; publishes the critically-acclaimed *Reason* magazine; directly engages the policy process, seeking strategies that emphasize cooperation, flexibility, local knowledge, transparency, accountability and results; and, through practical and innovative approaches to complex problems, seeks to change the way people think about issues, and promote policies that allow and encourage individuals and voluntary institutions to flourish. To further its commitment to "Free Minds and Free Markets," Reason files briefs on significant constitutional issues.

¹ Appellees City of Milwaukee, and Jatinder Cheema and Saad Malik, have consented to the filing of the brief. Appellants withheld consent without explanation.

Reason's amicus brief here will aid the Court in resolving the issues before it by providing a "unique perspective" that "can assist the court of appeals beyond what the parties are able to do" on the issues of economic effects due to deregulation, artificial scarcity created by legislation, rent-seeking in secondary markets, and de facto monopolies of artificially constrained market access. Nat'l Org. for Women, Inc. v. Scheidler, 223 F.3d 615, 617 (7th Cir. 2000) (citing Ryan v. Commodity Futures Trading Comm'n, 125 F.3d 1062, 1063 (7th Cir. 1997)).

Reason's brief focuses on economic research, which has shown that restricting taxi markets harms consumers and providers. *Amicus* also discusses the chilling effect on legislation that would come from recognizing the secondary market value of taxi licenses as a compensable property right. The implications to cost of delivery, innovation, quality of service, and market growth, arising from deregulation of artificially constrained markets, have been the subject of both economic and legal study, and would provide a useful perspective to the Court. Finally, *amicus* addresses the concept of economic rents, and how the secondary market value of taxi permits reflects the value of those rents (and the commensurate excess cost borne by the consumer) rather than traditional property rights.

The briefs of the parties do not address these issues, focusing instead on Wisconsin law of promissory estoppel, property, and breach of contract, and

federal precedent regarding constitutional takings. The proposed *amicus* brief will assist the Court by providing it with "information . . . beyond what the parties [have provided]'." *Nat'l Org. for Women*, 22 F.3d at 617.

May 10, 2016

Respectfully submitted,

REASON FOUNDATION

By:/s/ Cynthia Fleming Crawford
Cynthia Fleming Crawford
Counsel of Record for Amicus Curiae
LECLAIRRYAN, a Professional
Corporation
815 Connecticut Ave., N.W. Suite 620
Washington, D.C. 20006
202.659.6727
cynthia.crawford@leclairryan.com

Case: 16-1008 Document: 20-2 Filed: 05/10/2016 Pages: 23 (5 of 27)

No. 16-1008

In the United States Court of Appeals for the Seventh Circuit

Joe Sanfelippo Cabs, Inc., G.C.C., Inc., Roy WMS, Inc., Frenchy's Cab Company, Inc., 2 Sweets, LLC *Plaintiffs-Appellants*,

v.

City of Milwaukee Defendant-Appellee

v.

Jatinder Cheema and Saad Malik

Intervenors-Defendants-Appellees

On Appeal from the United States District Court for the Eastern District of Wisconsin
Case No. 2:14-cv-01036-LA
The Honorable Lynn Adelman, United States District Judge

Brief of *Amicus Curiae* Reason Foundation in Support of Defendants-Appellees and Affirmance

Cynthia Fleming Crawford

Counsel of Record

LECLAIRRYAN, a Professional Corporation
815 Connecticut Ave., N.W., Suite 620

Washington, D.C. 20006

202.659.6727

cynthia.crawford@leclairryan.com

Counsel for Amicus Curiae

Case: 16-1008 Document: 20-2 Filed: 05/10/2016 Pages: 23 (6 of 27)

Circuit Rule 26.1 Disclosure Statement

Appellate Court No.: 16-1008

Short Caption: Joe Sanfelippo Cabs v. Milwaukee

- (1) The full name of every party or *amicus* that the attorney represents in the case (if the party is a corporation, you must provide the corporate disclosure information required by Fed. R. App. P. 26.1 by completing the item #3): Reason Foundation
- (2) The names of all law firms whose partners or associates have appeared for the party or *amicus* in the case (including proceedings in the district court or before an administrative agency) or are expected to appear for the party in this court: <u>LeClairRyan</u>, a <u>Professional Corporation</u>
- (3) If the party or *amicus* is a corporation:
 - i) Identify all its parent corporations, if any; None
 - ii) List any publicly held company that owns10% or more of the party's or *amicus's* stock: None

Attorney's Signature: /s/ Cynthia Fleming Crawford Date: May 10, 2016

Attorney's Printed Name: Cynthia Fleming Crawford

Address: 815 Connecticut Ave. N.W. Suite 620

Washington, D.C. 20006

Phone Number: <u>202-659-6727</u> Fax Number: <u>202-659-4130</u>

E-mail Address: cynthia.crawford@leclairryan.com

TABLE OF CONTENTS

COR	PORATE & FINANCIAL DISCLOSURE STATEMENTSi
TAB	LE OF CONTENTSii
TAB	LE OF AUTHORITIESiii
INTI	EREST OF <i>AMICUS CURIAE</i> 1
SUM	MARY OF ARGUMENT3
ARG	UMENT4
I.	Economic Research Shows That Restricting Taxi Markets Harms Consumers and Providers
II.	Recognizing the Value of Taxi Licenses on the Secondary Market As a Compensable Property Right Would Chill Legislative Decisions
III.	Recognizing the Secondary Market Value of Taxi Permits As a Property Right Creates Bad Precedent That Is Relevant to Pending Claims
IV.	An Operating Permit Does Not Include Protection from Competition or Guaranteed Transfer Value on the Secondary Market
V.	Operating Permits Do Not Create Economic Property
VI.	Taxi License Values Reflect Economic Rents, Not Property Value
VII.	CONCLUSION
CER'	TIFICATE OF COMPLIANCE17
CER'	TIFICATE OF FILING AND SERVICE18

TABLE OF AUTHORITIES

<u>Page(s)</u>
Borja v. Uber Technologies, Inc., No. 1:2015-cv-20040 (S.D. Fla., filed January 7, 2015)
Ilinois Transportation Association v. The City of Chicago, No. 14-cv-00827 (N.D. Ill., filed February 6, 2014)
KL Motors, Inc. v. City of New York, No. 1:15-cv-9042-AT (S.D.N.Y., filed November 17, 2015)
OTHER AUTHORITIES
Adrian Moore & Ted Balaker, <i>Do Economists Reach a Conclusion on Taxi Deregulation?</i> , 3 Econ Journal Watch 109 (2006)
Anne O. Krueger, <i>The Political Economy of the Rent Seeking Society</i> , 64 American Economic Review 291 (1974), https://assets.aeaweb.org/assets/production/journals/aer/top20/64.3.291-303.pdf
Armen Alchian, <i>Property Rights</i> , Concise Encyclopedia of Economics (2008), http://www.econlib.org/library/Enc/PropertyRights.html
Douglas McTaggart, Christopher Findlay & Michael Parkin, <u>Economics</u> , 224 (7th ed. 2006)
Erdal Gumus, <i>The Social Costs of Monopoly: A Survey and an Evaluation</i> , 7 Mediterranean İİBF Journal 149, 162 (2007)
Federal Trade Commission, Trucking Deregulation in the United States (2007)
Frank H. Knight, Risk, Uncertainty and Profit (1921), http://www.econlib.org/library/Knight/knRUP1.html#Pt.I,Ch.II

(9 of 27)

Katrina Miriam Wyman, Problematic Private Property: The Case of New York Taxicab Letter from Andrew I. Gavil, Director, Office of Policy Planning, Federal Trade Commission, to Brendan Reilly, Alderman, Chicago City Council (Apr. 15, 2014), https://www.ftc.gov/system/files/documents/advocacy_documents/ftc-staffcomment-honorable-brendan-reilly-concerning-chicago-proposed-ordinance-Mark W. Frankena & Paul A. Pautler, Federal Trade Commission – Bureau of Economics Staff Report, An Economic Analysis of Taxicab Regulation (1984)....... 5 Organization for Economic Co-Operation and Development (OECD) Policy Richard A. Posner, The Social Costs of Monopoly and Regulation, Richard Sansing & Peter M. Vandoren, Escaping the Transitional Gains Trap, Shankha Chakraborty & Era Dabla-Norris, IMF Institute - Working Paper, Rent Seeking (2005), https://www.imf.org/external/pubs/ft/wp/2005/wp0543.pdf........ 15 Steve Oxenhandler, Taxicab Licenses: In Search of a Fifth Amendment, Tom W. Bell, Copyright Porn Trolls, Wasting Taxi Medallions, and the Propriety U.S. Gov't Accountability Office: Airline Deregulation: Changes in Airfares, Service, and Safety at Small, Medium and Large Communities, GAO/RCED-96-79

Document: 20-2

Case: 16-1008

Case: 16-1008 Document: 20-2 Filed: 05/10/2016 Pages: 23 (10 of 27)

INTEREST OF AMICUS CURIAE¹

Reason Foundation was founded in 1978 and is a 501(c)(3) nonprofit organization completely supported by voluntary contributions from individuals, foundations, corporations, and the sale of its publications. Reason Foundation advances a free society by developing, applying, and promoting libertarian principles, including individual liberty, free markets, and the rule of law.

Reason Foundation produces respected public policy research on a variety of issues and publishes the critically-acclaimed *Reason* magazine. Together, Reason's toptier think tank and political and cultural magazine reach a diverse, influential audience, advancing the values of choice, individual freedom, and limited government.

Reason Foundation's nonpartisan public policy research promotes choice, competition, and a dynamic market economy as the foundation for human dignity and progress. Reason produces rigorous, peer reviewed research and directly engages the policy process, seeking strategies that emphasize cooperation, flexibility, local knowledge, transparency, accountability, and results. Through practical and innovative approaches to complex problems, Reason seeks to change the way people think about

-

¹ Appellees City of Milwaukee, and Jatinder Cheema and Saad Malik, have consented to the filing of this brief. Appellants withheld consent without explanation. Accordingly, a Motion for Leave to File accompanies this brief. No counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund its preparation or submission. No one other than *amicus*, its members, and its counsel made a contribution intended to fund the preparation or submission of this brief.

Case: 16-1008 Document: 20-2 Filed: 05/10/2016 Pages: 23 (11 of 27)

issues, and promote policies that allow and encourage individuals and voluntary institutions to flourish.

This case interests *amicus* because Reason Foundation's decades of work on transportation policy and economics has revealed the importance of efficient and effective regulations and rules governing transportation systems. Without such rules, both consumers and providers in transportation markets suffer losses. This is particularly true of various forms of shared ride services, including taxicabs. *Amicus* seeks policies in taxi markets that maximize economic opportunity and consumer welfare.

SUMMARY OF ARGUMENT

In July 2014, the City of Milwaukee adopted an ordinance that allowed current holders of taxi permits to continue to operate under their existing permits, but removed all limits on the number of taxis permitted to operate in the city, thus allowing an unlimited number of competitive taxi drivers to enter the market.

Plaintiffs argue that this ordinance drastically reduced the value of their permits on the secondary market in violation of the Takings Clause of the Fifth Amendment. Plaintiffs are wrong. The value of taxi operating licenses on the secondary market is not a compensable property right. Rather, it is an economic rent that represents the excess value taxi permit holders can extract from consumers by charging higher rates than a competitive market would bear.

Treating those rents as property would harm consumers and providers in the taxi industry, and inhibit legislative discretion in a broad number of policy areas. By contrast, freeing the taxi permitting scheme from artificial constraints on supply reasonably can be expected to lower cost, improve service, encourage innovation, and drive a secondary market value for permits that accurately reflects the useful value of the permit, rather than the value derived from artificial scarcity created by a restrictive permitting scheme.

ARGUMENT

I. <u>Economic Research Shows That Restricting Taxi Markets Harms Consumers and Providers</u>

It is well-established that there are significant costs when a law or regulation fosters a monopoly and frustrates competitive entry. This should come as no surprise to anyone who participates in markets. Even the most casual consumer knows that more competitive markets tend to lead to lower prices and better services. Judge Posner's seminal 1975 article, "The Social Costs of Monopoly and Regulation," laid the groundwork for a rich literature explaining and measuring how costly to consumer welfare are restrictions on competition in markets.²

Specific to taxi markets, Dr. Adrian Moore's survey, "Do Economists Reach a Conclusion on Taxi Deregulation?" found that economic literature identifies substantial benefits to consumers from expanding competition in taxi markets, and that some literature verifies benefits to taxi drivers from greater employment in an expanded market.³

[T]he costs of monopoly are quite probably much greater in the regulated than in the unregulated sector of the economy, despite the greater size of the latter sector.

For a review of some of the subsequent literature, see Erdal Gumus, The Social Costs of Monopoly: A Survey and an Evaluation, 7 Mediterranean İİBF Journal 149, 162 (2007), which concludes that while empirical measurement of the costs of market restrictions remains challenging, recent theoretical work suggests the social costs "might be enormous."

² Richard A. Posner, *The Social Costs of Monopoly and Regulation*, 83 J. Polit. Econ., 807, 821 (1975).

Document: 20-2 Case: 16-1008 Pages: 23 Filed: 05/10/2016 (14 of 27)

The Federal Trade Commission performed one of the earliest comprehensive analyses of the effects of restricting taxicab markets.⁴ Over 30 years ago its review of the literature identified considerable benefits from more competition in taxi markets, including:

- lower fares, as more service providers compete in the market;
- lower operating costs, due to competitive incentives;
- improved service quality, as competition, encourages taxi drivers to provide friendly, reliable service and clean vehicles, and to avoid taking advantage of passenger ignorance; with competition reputation becomes more important;
- innovations such as shared-ride markets and special services for the disabled, creating market niches where none had existed; and
- increasing demand for taxi services, as prices fall and quality improves.⁵

The Federal Trade Commission continues to maintain that more competitive taxi markets are better for consumers.6

Two out of three articles on taxi-market policy by economists find taxi deregulation beneficial, and their judgments expressed in their writing show that a strong majority support deregulation. That some articles judge deregulation negatively arises in part from deregulation not having gone far enough.

³Adrian Moore & Ted Balaker, Do Economists Reach a Conclusion on Taxi Deregulation?, 3 Econ Journal Watch 109, 126 (2006).

⁴ Mark W. Frankena & Paul A. Pautler, Federal Trade Commission – Bureau of Economics Staff Report, An Economic Analysis of Taxicab Regulation (1984).

⁵ *Id.* at 80-111.

⁶ In 2014, Chicago Alderman Brendan Reilly sought input from the FTC to the city government's deliberations on allowing more competition in the city taxi market, and the subsequent letter from Andrew I. Gavil, Director of the Office of Policy Planning, Federal Trade Commission, April 15, 2014, reiterated the FTC's findings on the benefits of competition in taxicab markets. Available at

Finally, the Organization for Economic Co-Operation and Development ("OECD"), in a 2007 large-scale report on taxi market regulations, concluded:

Restrictions on entry to the taxi industry constitute an unjustified restriction on competition. Regulatory capture frequently means that these restrictions lead to large transfers from consumers to producers, economic distortions and associated deadweight losses.⁷

The bottom line is that the Milwaukee city government made the right decision for consumers and taxi drivers by opening up the taxi market to more competition.

II. <u>Recognizing the Value of Taxi Licenses on the Secondary Market As a Compensable Property Right Would Chill Legislative Decisions</u>

Recognizing the secondary market value of licenses as a compensable property right would chill legislative action. If an existing licensing scheme conferred an economic benefit on some parties, legislatures would be inhibited from changing or revoking the policy for fear of substantial out-of-pocket cost to the public—notwithstanding potentially superior, but less tangible, benefits from making the change. Similarly, legislatures would be reluctant to experiment with new policies for fear that a property right might be created, saddling them in perpetuity with a policy that could not be undone without substantial cost.

https://www.ftc.gov/system/files/documents/advocacy_documents/ftc-staff-comment-honorable-brendan-reilly-concerning-chicago-proposed-ordinance-o2014-1367/140421chicagoridesharing.pdf.

⁷ Organization for Economic Co-Operation and Development (OECD) Policy Roundtable, *Taxi* Services: Competition and Regulation, 7 (2007).

Changing times and circumstances could never be accommodated without great cost. Past examples show that deregulation in response to changing times and new evidence can result in substantial benefits to consumers through innovation and development of the unregulated markets.

For example, when the federal government removed government restrictions on competition in the airline and interstate trucking industries, incumbent firms in those industries were not able to assert a property right in limited access to the market and demand compensation for the loss of their fixed share of the market. If they had, the cost of paying off the incumbents would likely have been prohibitive; those deregulatory policies never would have been put into place; and enormous benefits to consumers would have been forgone.⁸

_

The quantity of air service, as measured by the number of both departures and available seats, has increased since deregulation for all three airport groups.

[f]or each airport group, the accident rate was lower in 1994 than in 1978.

Federal Trade Commission, *Trucking Deregulation in the United States* (2007), available at https://www.ftc.gov/sites/default/files/attachments/us-submissions-oecd-and-other-international-competition-fora/ibero-trucking.pdf

⁸ U.S. Gov't Accountability Office: Airline Deregulation: Changes in Airfares, Service, and Safety at Small, Medium and Large Communities at 3, GAO/CED-96-79 (1996), available at http://www.gao.gov/archive/1996/rc96079.pdf.

The average fare per passenger mile, adjusted for inflation, has fallen since deregulation about as much at airports serving small and medium-sized communities as it has at airports serving large communities.

Faced with having to compensate beneficiaries of existing policies who assert a compensable property right in those benefits, legislatures would either be inhibited from acting or required to fund substantial transfers of wealth from taxpayers to individuals who benefit from the exclusionary nature of existing policies.

III. Recognizing the Secondary Market Value of Taxi Permits As a Property Right Creates Bad Precedent That Is Relevant to Pending Claims

Accepting the secondary market value of a taxi license as a compensable property right in Milwaukee would create implications for many other taxi markets. Similar claims are being made in New York City, Chicago, and Miami. *See KL Motors, Inc. v. City of New York*, No. 1:15-cv-9042-AT, ECF Dkt. 1 (S.D.N.Y., filed November 17, 2015); *Illinois Transportation Association v. The City of Chicago*, No. 14-cv-00827 (N.D. Ill., filed February 6, 2014); *Borja v. Uber Technologies, Inc.*, No. 1:2015-cv-20040 (S.D. Fla., filed January 7, 2015).

IV. <u>An Operating Permit Does Not Include Protection from Competition or Guaranteed Transfer Value on the Secondary Market</u>

There is no investment backed expectation that holders of taxi permits will receive a windfall in secondary market value from legislatively-created market

The United States has now had sufficient experience with deregulation of the trucking industry to conclude that it has been entirely beneficial for consumers. None of the concerns expressed by skeptics of deregulation have proven valid. To the extent that transportation costs form a component of the ultimate retail price of goods, trucking deregulation has significantly driven down the cost of those goods.

constraints or be shielded from competition. In Milwaukee, city legislators repeatedly—and publicly—stated that limits on the number of taxi licenses could be changed at any time. Prior taxi licensing practices do not support a reasonable expectation of fixed levels of competition in Milwaukee's taxi market. Indeed, the rational expectation is the opposite—that the secondary market value of a permit incorporates the risk of a policy change that would increase competition, and thus the effect of any potential change in policy is already baked into the price.

A 1994 analysis of the market for taxi licenses in New York City found just that. Sansing and Vandoren found that the prices of taxi licenses are reduced somewhat to internalize the risk of a policy change that would increase competition.¹⁰ Their findings are consistent with historical findings across markets for taxi licenses.¹¹

But, even if the market did not internalize the risk of changing policies on competition, it would not be reasonable for taxi permit holders to claim a property right to the transfer value of their permit (as opposed to the useful value). The legislative changes made by the City of Milwaukee did not take away the taxi operating permit from any holder, or curtail how the permit could be used—it only allowed

⁹ Dkt. 25-13 at 14, 35; Dkt. 25-14 at 14.

¹⁰ Richard Sansing & Peter M. Vandoren, *Escaping the Transitional Gains Trap*, 13 J. Pol'y Anal. Manag. 565 (1994).

¹¹ An early finding of economic science is that markets inherently incorporate such risks into prices. See Frank H. Knight, Risk, Uncertainty and Profit (1921), available at http://www.econlib.org/library/Knight/knRUP1.html#Pt.I,Ch.II.

more permits to be issued. Existing taxi license holders did not lose the right to operate their taxis, only their protection from robust competition.

While the Fifth Amendment protects property owners from the arbitrary taking of their property by government without compensation, it does not protect the premium created by policy decisions that may be changed. Holding to the contrary would result in perverse incentives for legislators and absurd outcomes.

Imagine if a city government issued a license to the first grocery store or gas station in a growing town. Years later, after the population had grown, other individuals applied for licenses to create competing grocery stores and gas stations to better serve the needs of the expanding market. Because the city's long running policy was to discourage sprawl and inhibit growth by declining to issue such licenses, the secondary market value for the sole grocery store and gas station would reflect their monopoly position and the scarcity of needed services for the public.

Ultimately, the pressure for additional services might drive the City to issue additional licenses. The longer the City resisted meeting the needs of the public, the greater the secondary market value of the existing monopolies, and the greater the "loss" to the incumbents when the policy is finally changed (and the greater the commensurate cost to the long-suffering public when the new permits are issued if the incumbents had to be paid off).

It would be absurd for the incumbent owners of the sole grocery store and gas station to assert a property right in the monopoly value of their businesses and claim a

"taking" for any reduction in secondary market value due to the newly-issued licenses, just as it would be absurd to claim a taking for reduced profits resulting from increased competition. It is demonstrable that the worse the policy (*i.e.* creating an absolute monopoly versus less severe artificial scarcity), the greater the difference between the intrinsic value of the license and its price on the secondary market, and the greater the perverse incentive to the legislature to maintain the harmful policy to avoid paying-off the beneficiaries of the restrictive policy.

Thus, even if operating licenses are a property right, the transfer value of the property is not. This conclusion is consistent with previous studies of taxi medallions and their value on the secondary market due to artificial scarcity created by regulation.

More specifically, taxi medallion holders have no property claim to the gains they enjoy thanks to regulatory barriers on competition, leaving cities free to raise caps on the number of licensed taxis—even if doing so causes the market value of taxi medallions to crash.¹²

In Milwaukee, taxi drivers' permission to operate was not taken, only the artificial scarcity was removed.

¹² Tom W. Bell, Copyright Porn Trolls, Wasting Taxi Medallions, and the Propriety of Property', 18 Chap. L. Rev., 799, 808 (2015).

Filed: 05/10/2016 Pages: 23 (21 of 27)

V. Operating Permits Do Not Create Economic Property

Case: 16-1008

Document: 20-2

The Concise Encyclopedia of Economics defines a property right as "the exclusive authority to determine how a resource is used." This economic definition of property rights excludes operating permits for two reasons: (1) permits do not embody the exclusive authority to use a resource with the associated value of that use but, rather, a group right to exclude others from using their own resources; and (2) even where permits can be transferred on the secondary market, such transfer is not a free exchange of inherent value but, rather, the supervised transfer of access to a regulatory scheme. Any attempt to define taxi licenses as a "property right" requires the creation of a special category of property right that does not share characteristics commonly attributed to property. As another scholar explained:

Unlike any traditional kind of property, taxi medallions do not exist in a state of nature, by custom, or at the common law; they arise solely by legislative fiat. Though the right of exclusive use has been described as the foremost attribute of property, the rights secured by a taxi medallion belong not to any particular individual but only collectively—by all those licensed to serve passengers flagging down paid transport on public streets. Whereas property traditionally

-

¹³ Armen Alchian, *Property Rights*, The Concise Encyclopedia of Economics, 1 (2008), available at http://www.econlib.org/library/Enc/PropertyRights.html.

¹⁴ See, for example, Katrina Miriam Wyman, Problematic Private Property: The Case of New York Taxicah Medallions, 30 Yale J. Reg., 125 (2013), which defines "regulatory" property rights as political constructs that do not "emerge organically within society because their benefits exceed their costs," as do traditional property rights. The article concludes that New York taxicab licenses are "regulatory property rights" and "are an instance of inefficient private property rights sustained by political decision-making processes subject to pressures from powerful interest groups."

enjoys free alienability, taxi medallions cannot be transferred without the supervision and approval of licensing authorities.¹⁵

Indeed, a review of the law regarding taxi licenses concludes that expanding competition in taxi markets can only be considered a taking if the license holders can no longer exclude others from using their permit or cannot sell their permit to others.¹⁶

Bell argues convincingly that taxi permits are better understood as a privilege rather than a right.

As the court in Yellow Cab Co. v. Ingalls put it, "A license, permit, or certificate of public convenience and necessity to operate motor vehicles on the public streets of a municipality for the conduct of a strictly private business is not an inherent right but is a mere privilege."¹⁷

Courts and commentators too often categorize statutory entitlements like copyrights and taxi medallions as "property," apparently convinced by features such as exclusivity and transferability, undaunted by the absence of any pedigree from natural rights or the common law, and unable to think of any more fitting label.¹⁸

In the long term, we should aim for courts and commentators to appreciate that sometimes "privilege"

Case: 16-1008

¹⁵ Bell, 18 Chap. L. Rev. at 806-807 (internal footnotes omitted).

¹⁶ Steve Oxenhandler, *Taxicab Licenses: In Search of a Fifth Amendment, Compensable Property Interest*, 27 Transp. L. J., 113 (2000) (accumulating cases).

¹⁷ Bell, 18 Chap. L. Rev. at 807.

¹⁸ *Id.* at 813.

offers a better description of many legal entitlements than "property" does. The latter term has been overextended to subjects that possess only some of the attributes of property, such as exclusivity or alienability. Property consists of more than just a few functional features, however. It will always have roots in nature, custom, and the common law that statutory privileges, whatever their merits, of necessity lack.¹⁹

Taxi permits lack the classic characteristics of property and thus are better understood as a privilege than a right.

VI. Taxi License Values Reflect Economic Rents, Not Property Value

An economic rent can be understood as the value of a good that would not exist in an unrestricted market. In the seminal 1974 paper that coined the term "rent seeking," economist Anne Krueger illustrated her point with the example of taxi regulations.²⁰ Now, textbooks and even Wikipedia use taxi regulations to illustrate the notion of rent-seeking.²¹ It is obvious that taxi licenses in markets with restricted entry/competition are rents.

²⁰ Anne O. Krueger. The Political Economy

¹⁹ *Id.* at 813-814.

²⁰ Anne O. Krueger, *The Political Economy of the Rent Seeking Society*, 64 American Economic Review 291 (1974), available at https://assets.aeaweb.org/assets/production/journals/aer/top20/64.3.291-303.pdf.

²¹ A textbook example, cited in Wikipedia, is Douglas McTaggart, Christopher Findlay & Michael Parkin, <u>Economics</u>, 224 (7th ed. 2006). Wikipedia, while not an authoritative source, provides a good example of explanations that resonate with readers. It illustrates "rent-seeking" using a taxi regulation at https://en.wikipedia.org/wiki/Rent-seeking.

This is important because a rent is very different from a property right. Indeed, rent-seeking tends to arise when property rights are ill defined.²² Thus, it is oxymoronic to assert that rent derived from the artificial scarcity created by a restrictive taxi-permitting scheme creates a property right—rents and property rights are simply mutually exclusive.

CONCLUSION

Taxi permits are a privilege granted by the government. There is no economically sound property right in the secondary market value of such permits. Rather, the secondary market value of the permits in a market with artificially restricted competition is a rent that represents the value taxi license holders can extract from consumers by charging higher rates than a more competitive market would bear.

Considering the secondary market value of taxi licenses to be a property right would inhibit policies to increase competition in taxi markets, at great cost to consumers and would-be providers in the taxi industry. Moreover, it would imply a property right in the value of many other forms of government licenses and permits that create artificial scarcity under a broad range of policy conditions, which would create incentives for poor policy decisions by legislators.

_

²² This is well explained in Shankha Chakraborty & Era Dabla-Norris, IMF Institute – Working Paper, Rent Seeking (2005), available at https://www.imf.org/external/pubs/ft/wp/2005/wp0543.pdf.

Case: 16-1008 Document: 20-2 Filed: 05/10/2016 Pages: 23 (25 of 27)

Respectfully submitted, REASON FOUNDATION

By:/s/ Cynthia Fleming Crawford
Cynthia Fleming Crawford
Counsel of Record for Amicus Curiae
LECLAIRRYAN, a Professional Corporation
815 Connecticut Ave., N.W. Suite 620
Washington, D.C. 20006
202.659.6727
cynthia.crawford@leclairryan.com

CERTIFICATE OF COMPLIANCE WITH FED. R. APP. 32(A)

I, Cynthia Fleming Crawford, certify that this brief complies with the type-volume limitation of Fed. R. App. 32(a)(7)(B), as it contains 3,483 words, excluding the parts of the brief exempted by Fed. R. App. P. 32(a)(7)(B)(iii).

I further certify that this brief complies with the typeface requirements of Fed. R. App. P. 32(a)(5) and the type style requirements of Fed. R. App. P. 32(a)(6), as qualified by Circuit Rule 32(b), as it has been prepared in a 14-point, proportionally spaced typeface, Garamond, with footnotes in 12-point type.

May 10, 2016

/s/ Cynthia Fleming Crawford
Cynthia Fleming Crawford
LECLAIRRYAN, a Professional Corporation
815 Connecticut Ave., N.W. Suite 620
Washington, D.C. 20006
202.659.6727
cynthia.crawford@leclairryan.com
Counsel of Record for Amicus Curiae

Case: 16-1008 Document: 20-2 Filed: 05/10/2016 Pages: 23 (27 of 27)

CERTIFICATE OF FILING AND SERVICE

I hereby certify that on May 10, 2016, I electronically filed the foregoing with the Clerk of Court for the United States Court of Appeals for the Seventh Circuit by using the CM/ECF system. I certify that all participants in this case are registered CM/ECF users and that service will be accomplished by the CM/ECF system on the following counsel:

Anthony B. Sanders
INSTITUTE FOR JUSTICE
520 Nicollet Mall, Suite 550
Minneapolis, MN 55402-1046
(612) 435-3451
asanders@ij.org

Steven D. Sanfelippo CUNNINGHAM SWAIM, LLP 7557 Rambler Road, Suite 440 Dallas, TX 75231 (214) 646-1495 ssanfelippo@cunninghamswaim.com

Adam B. Stephens
MILWAUKEE CITY ATTORNEY'S OFFICE
200 E. Wells Street, Room 800
Milwaukee, WI 53202-3551
(414) 286-2669
asteph@milwaukee.gov

/s/ Cynthia Fleming Crawford