By Losing Uber, Austin Is No Longer A Tech Capital

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Two days have passed with no Uber or Lyft service in Austin, Texas. Though Austin has a reputation of being filled with tech-savvy millennials, it is now the largest U.S. city without ridesharing. Local policymakers blame Uber and Lyft for pausing their operations in the city, but the Austin City Council pushed ridesharing out by regulating in search of a problem.

In December 2015, the Austin City Council approved an ordinance that would require ridesharing drivers to go through fingerprint background checks. The ordinance also included restrictions on picking up and dropping off passengers and requirements on maintaining a physical presence in the city, fee payments and proprietary data sharing.

Though the ordinance went into effect on February 1, 2016, the fingerprint requirements were given steadily increasing compliance rates, which had to reach 99% by February 1, 2017. Rather than altering their business models, Uber and Lyft took their protests to the voters by setting up a challenge to the ordinance called Proposition 1. Their efforts were rejected by voters last weekend, and the companies pulled out of Austin on Monday.

After the vote, Austin Mayor Steve Adler tweeted:

Though Austin policymakers clearly want to claim that they have a popular mandate to regulate ridesharing, only 17% of the city's registered voters weighed in on Prop 1. This means the final tally of 56% against to 44% for was clearly not a mandate. Additionally, the ballot language—which was crafted by the City Council—was widely seen as confusing.

Low voter turnout worked against the ridesharing companies. They were able to get 65,000 signatures to create the ballot, but only 38,539 people voted to accept Prop 1.

Uber and Lyft spent a combined $8.6 million trying to overturn the city's regulations. This was by far the most expensive campaign in Austin's history. The companies fought the ordinance because they viewed the battle as a line in the sand (similar to how they treated New York City's proposed cap on the companies' growth, or how Airbnb viewed San Francisco's homesharing restrictions). Other cities are considering fingerprint requirements, too, so Uber and Lyft needed a strong showing to dissuade other local policymakers from following through on their fingerprinting proposals.

Uber claims that because of the companies' pauses in operation, over 10,000 ridesharing drivers will lose their jobs. Though most of these drivers work part-time (half of Uber drivers work under 10 hours a week and 80% of Lyft drivers work under 15 hours a week), the lost opportunity to earn extra income will be sorely missed. This is to say nothing of the loss of reliable, convenient transportation options that Austin residents now face.

In trying to increase public safety by mandating fingerprint background checks, Austin policymakers are placing their constituents at greater risk. Perhaps nowhere is this unintended consequence clearer than with drunk driving. Uber has been documented to lower both drunk driving arrests and fatal accidents, partly because taxis are difficult to find late at night. For example, in Austin—a city with the highest number of downtown bars per capita in the United States—the number of available taxis drops at midnight. This is when alcohol-related crashes and DUI arrests are at their highest levels.

Complying with the fingerprint background check requirements would mean the process for approving new ridesharing drivers would take longer and cost more—all without additional public safety benefits. Ridesharing relies on the ability to quickly bring on new drivers to meet ever-increasing rider demand, and the companies already have their own background checks.

Though fingerprinting sounds secure, there are many problems with this type of background check. As the Cato Institute's Matthew Feeney told me, "Fingerprinting is not as effective as Hollywood might have you believe. The FBI fingerprint database is incomplete, in part because it relies on police departments and other local sources adding relevant data and keeping that data updated."

In addition, Feeney told me that the FBI database includes the fingerprints of people who were arrested but later found not guilty. This is important because, as a 2013 National Employment Law Project study noted, around a third of felony arrests never lead to any conviction. Relying on fingerprints for rideshare background checks might sound appealing, but it will almost certainly result in otherwise qualified and safe drivers being denied the opportunity to use ridesharing services.

No background checks are completely fail safe, but ridesharing's safety record shows that the companies' current policies are working well. The safety standards that Uber and Lyft voluntarily adopted are even stricter than those required of Austin taxis. In addition to providing safer transportation than taxis, ridesharing's business model makes it very easy to police drivers. The locations of both parties are tracked through the duration of the trips, and identities are verified. In other words, if people commit crimes while driving for Uber or Lyft, they must want to get caught.

While only three companies control all of Austin's taxi permits, this regulation appears to be a case of bureaucrats simply not being able to stand a successful industry that polices itself through consumer feedback and operates with minimal government oversight.

In addition to public safety concerns, one of Austin's main justifications for the fingerprinting was that Austin taxi drivers are required to go through the process. The new regulations were nothing more than a way to "level the playing field," according to the regulation's proponents.

However, there are two ways to level a regulatory playing field. One involves placing additional hurdles on new technologies while the other focuses on lowering existing barriers. To help taxis better compete against their ridesharing competitors, local policymakers should focus on cutting red tape so that taxis can become more like Ubers—not the other way around.

There are a few paths forward from here. First, assuming none of the other ridesharing startups catch on in the city, Austin could remain without ridesharing if the companies' "pauses" continue. Second, Uber and Lyft could decide to comply with the regulations. Third, the Austin City Council, after feeling the backlash from their constituents, could decide to overturn the rule. Fourth, state policymakers could pass legislation that overrides Austin's requirements. The last option may be the most likely to happen, as Houston also passed fingerprint requirements (Uber is threatening to halt its operations there, something Lyft did in November 2014).

Austin residents who either drive or ride with Uber and Lyft are going to feel the pain of the city's regulatory overreach. Their problems may extend to the residents of other cities that are considering fingerprinting requirements. Instead of imposing unnecessary costs and time commitments on promising new business models, cities should take this opportunity to lower their pointless restrictions on legacy transportation options.