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Why Canadian Travel Costs so Much

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If you have traveled recently, here's a question you might have pondered: Why does it cost so much to travel? Answer: government policy.

Consider two examples, starting first with taxi fares. Across Canada, cities limit the number of taxi licences available. This, we are told, allows drivers

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to make a decent living and consumers to know the cabs they step into are safe.

Nonsense. An open market in taxicabs, where anyone or any company who wants a licence can get one (subject to reasonable safety requirements of course), would not only reduce fares, but wouldn't automatically mean drivers make less. Those who choose to drive solo, or formed co-ops, or started a smaller cab company, might well make more money even while passenger fares were reduced.

This in fact was the model in existence a few years back when I was in Washington, D.C. One driver who picked me up owned his own cab. He did not work for a taxi company nor did he take dispatch calls; he made his living solely from picking passengers up off the street. He preferred this to working for some company because his income was greater and he could also set his own hours.

When cities limit the number of taxi licences, the price of such licences increases to levels that only a select few can afford. In turn, a high price for a taxi licence means drivers are forced to pay substantial rents to the licence owners.

A cab driver not working for a company could have a greater income and work his/her own hours

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The last time I talked to a cab driver about his costs, drivers paid several hundred dollars per week (one fellow paid close to $400 weekly) to the cab company, plus fuel, for the privilege of driving a taxi. In other words, cut out the middlemen and drivers could make more even as fares are reduced for the public.

As for quality and safety, a competitive taxicab market need not sacrifice security. Drivers and their vehicles could still be licenced and regulated by cities with requirements that address the driver's character (i.e., no criminal record), safety of the vehicle and so on.

Reform would be useful. On taxis, the Organisation for Economic Co-operation and Development (OECD) surveyed 17 countries back in 2007. It found that those who had "removed or loosened supply restrictions on taxis" ended up with strongly positive results: "Reduced waiting times, increased consumer satisfaction and, in many cases, falling prices being observed." That's one example of how governments artificially inflate travel costs. Here's another: airline fares.

Back in 2012, I compared European countries, Canada and the United States on kilometre-for-kilometre flight costs.

I compared five return domestic flights of roughly similar kilometres with a total of 5,400 kilometres flown (and within the same jurisdiction, i.e., just in Canada, or in the United States, or in a select European country).

The five European tickets cost just $689.68 with taxes and fees at 36 per cent of the total fare price; the U.S. total was $841.10 with taxes and fees at 16 per cent; the Canadian five fares cost $1,815.14, including taxes and fees at 28 per cent.

When I performed the same calculations on cross-border return flights of similar individual distances (Canada-U.S. flights versus cross-border flights in the European Union), the five-fare bill for the 10,000 total kilometres flown was $1,277.94 in Europe. That included 43 per cent in taxes and fees. In North America, the five return fares with 9,660 kilometres flown would set back a passenger $2,266.13 with taxes/fees at 22 per cent of the total.

Given that taxes and fees are higher in Europe, that means another factor helps explain the lower European fares: competition.

Europe's pro-consumer ticket prices exist because European airlines and even airports have fiercely competed for passengers ever since the European Union air travel market was opened up to full competition in 1997. Any carrier from any member country can pick up and drop off passengers anywhere, regardless of the airline's home country.

That's a policy known as "cabotage." But Europe's open skies are in distinct contrast to North America. Here, both U.S. and Canadian governments still prohibit "foreign-owned" airlines from offering wholly domestic flights in our markets. Because neither the United States nor Canada allows "foreign" carriers to pick up and drop off customers in their respective countries (they can do only one or

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the other), competition is less than it would be if the European approach was in play. That results in higher airline fares.

With apologies to Karl Marx, if governments embraced competition more robustly, consumers would have nothing to lose but their overpriced taxi fares and high-priced airline tickets.

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