New York taxi drivers driven to penury and suicide

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A recently published series of articles by the *New York Times* has exposed the brutal exploitation of New York City taxi drivers due to predatory lending practices. This, compounded by growing competition from ride-hailing services such as Uber and Lyft, has led to extreme economic stress, nearly a thousand bankruptcies, and at least eight suicides by taxi, limousine, and ride-hailing drivers last year alone.

Much as with the housing mortgage bubble a decade ago, banks and other private lenders used shady and deceptive practices to lure drivers into taking out enormous loans to purchase taxi medallions. Ownership of these city-regulated medallions allows an individual to drive their own cab rather than work as an employee of corporate fleets, which own large numbers of medallions, and have long been known for corruption and the exploitation of drivers.

In earlier decades purchase of a medallion, the value of which had historically grown at a modest rate, was seen as a sound investment. Through hard work a driver could achieve a relatively decent standard of living.

In recent times, however, the introduction of predatory lending practices by a growing number of companies, specializing in “medallion loans” targeting individual cabbies, resulted in a boom-and-bust cycle, which has devastated many of the city’s largely immigrant taxi drivers. This was compounded by an influx of other lenders seeking new investment “opportunities” after the 2008 crash drove them out of the real estate market. Some fleet owners intentionally bid up medallion prices in order to inflate the value of their own holdings. Among those who participated in such schemes was Michael Cohen, President Trump’s former attorney. He and his wife owned more than 30 medallions.

These practices greatly inflated the price of medallions, creating a huge bubble which, when it burst, left individual drivers who had purchased the highly over-valued medallions with unsustainable debt. The *Times* found that from 2002 to 2014 the price of a medallion increased by a factor of five, from $200,000 to over $1 million. Over the same period taxi drivers’ incomes have been stagnant or declined. New York taxi drivers, on average, saw a $10,000 reduction in their yearly earnings between 2013 and 2016, according to the New York Taxi Workers Alliance.

As prices rose, lenders encouraged borrowers to refinance based on the premise that the trend would continue upward forever, much as with the pre-2008 housing bubble, with no consideration of the borrower’s underlying financial status. Many drivers now owe hundreds of thousands of dollars.

The city itself benefited financially from the inflated prices, using the sale of new medallions as a revenue stream, realizing upward of $855 million from sales and taxes under the administrations of Mayor de Blasio and his predecessor Michael Bloomberg; a thousand new medallions were sold under Bloomberg’s administration. At the same time, government oversight of lending practices was loosened. Meanwhile, reports raising warning flags were ignored as the wealthy profited.

The bubble burst in late 2014, in part under the increasing competitive pressure from ride-hailing services (Uber launched in New York City in 2001). Since then, the price of medallions tumbled to below its 2002 level, leaving the approximately 4,000 drivers who purchased them with mountainous debt and an enormously diminished asset. Nearly a thousand have so far declared bankruptcy, and many more may soon follow.

This was, in effect, a Ponzi scheme in which the lenders deliberately inflated prices. They lured unsuspecting drivers, many of them immigrants with limited English-language skills, with the prospect of being their own boss. However, victims were not warned of the debt-trap they were entering.

According to the *Times*, “The investigation found example after example of drivers trapped in exploitative loans, including hundreds who signed interest-only loans that required them to pay exorbitant fees, forfeit their legal rights and give up almost all their monthly income, indefinitely.” Lenders snowed borrowers under with a blizzard of added charges. “Rather than raising interest rates, they made borrowers pay a mix of costs—origination fees, legal fees, financing fees, refinancing fees, filing fees, fees for paying too late and fees for paying too early, according to a *Times* review of more than 500 loans included in legal cases."

Loans also included a "balloon" clause whereby the interest rate would increase to as high as 24 percent if the loan wasn't repaid in three years.

Lenders profited at both ends. First, by sucking profits from drivers' debt payments, then, as prices collapsed, by purchasing hundreds of medallions at cut-rate prices from bankrupt drivers while sending debt collectors to extract whatever other assets the drivers might have.

Similar practices spread to cities across the country.

Lenders have denied wrongdoing, despite the striking similarities with the predatory practices that led to the financial crisis of 2008. And the city, which regulates the taxi industry via its Taxi and Limousine Commission, also denies responsibility, despite the fact that a 2010 study prepared for the city warned of the growing bubble.

The New York State attorney general recently launched an investigation into lending practices in the industry. And the city has now announced its own inquiry. Little can be expected from such actions, undertaken by agencies that allowed these practices to go on unhindered for years.

Drivers for ride-hailing services, such as Uber and Lyft, also suffer extreme exploitation, as highlighted by the world-wide strike in early May. The strike was an international event with rideshare drivers participating in the United States, Australia, Great Britain, France, Nigeria, Kenya, Chile, Brazil, Panama, Costa Rica, Uruguay and other countries, emphasizing the shared experience of workers facing a common enemy.

Uber is deliberately lowering driver earnings in order to maximize the projected stock windfall for investors. The company announced a further 25 percent cut in driver compensation per mile last winter, with Uber now taking an average 33 percent in commission for each ride. Drivers in the US, who are treated as independent contractors, average a poverty wage of $10 to $12 per hour, with few if any benefits. One Uber driver in New York City told the *World Socialist Web Site* that he works 100 hours a week and averages less than $14 an hour in one of the most expensive cities in the world.

The similarity of conditions facing taxi, livery, and ride-hailing drivers is illustrated by the note posted on Facebook by Doug Schifter, 61, a limousine driver who committed suicide last year: "I worked 100-120 consecutive hours almost every week for the past fourteen-plus years. When the industry started in 1981, I averaged 40-50 hours. I cannot survive any longer with working 120 hours!" "This is SLAVERY NOW. … I don't know how else to try to make a difference other than a public display of a most private affair."

One cabbie, Roy Kim, 58, who hanged himself last November, had bought a medallion the year before and was more than half a million dollars in debt.

An Uber driver, Fausto Luna, also 58, who was deeply in debt, committed suicide last October by throwing himself in front of a subway train.

Reports indicate that Uber has been collaborating with car dealers and financiers to push their drivers into purchasing vehicles under exorbitant terms similar to the predatory lending practices to which taxi drivers have been subject. Meanwhile, the recent Initial Public Offerings (IPO) of Uber and Lyft raised billions of dollars for each company.

The bursting of the medallion price bubble was due to a convergence of a number of factors. The growth of ride-hailing companies such as Uber and Lyft, which have taken significant market share, has been compounded by the city's significant increase in the sale of medallions, putting more taxis on the street. The result is the pitting of one section of the working class against another, causing extreme economic and emotional stress.

Under these conditions, the unscrupulous lending policies, which astronomically inflated the price of medallions, were inevitably destined to cause a collapse. Just as with the housing bubble, prices could not continue rising forever, with devastating consequences for the working class. Just as in 2008, while the corporate gangsters will be rescued, the big business politicians will do nothing to alleviate the suffering of the victims of these crimes.

The fight by transportation workers against these appalling conditions requires the building of new organizations, independent of the pro-corporate trade unions and the two parties of the Wall Street banks, the Democrats and Republicans. The rational reorganization of the transportation industry calls for a socialist program oriented to the interests of workers and the traveling public, not the profiteering of the banks.

The author also recommends:

Uber and Lyft drivers conduct international strike
[9 May 2019]

Eighth New York City taxi driver suicide of 2018
[4 December 2018]