Uber and the Congo

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In his book "Congo," Michael Crichton tells a fictional story of an expedition into the Congo jungle. At the time he wrote the book, the jungle was so inhospitable that only half a million people lived there, even though the jungle was almost half the size of the continental United States (which includes Alaska but not Hawaii). When the expedition reached an area that the locals thought was inhabited with evil spirits, the porters – hired to carry equipment – refused to go any further. This was just a ploy the porters employed to negotiate more compensation for their work. The expedition leaders ended up doubling the porters' pay.

In his story, the one I just described, Crichton described a classic holdup problem. The porters could not get high wages before the expedition started because so many other people wanted those jobs and were willing to accept lower wages. But if the porters waited until the expedition was deep into the jungle, they could demand high wages and the expedition leaders had no one else available to do the job, so these leaders had little choice but to pay more.

In economic terms, the porters created an artificial monopoly. They became the sole providers of porter services once the expedition was underway. Without competition, the porters could charge high prices.

While Crichton's story is fictional, artificial monopolies occur in the real world. I just saw one. My wife and I arrived in Quebec City at about 12:30 am one night. We got into a cab, and I asked the driver if he took credit cards. He said no, even though there was a credit card terminal in the car. He said he only accepted cash, but that he would take payment of one American dollar for each Canadian dollar owed. The American dollar is worth about 37 percent more than the Canadian dollar, so only having American currency on hand, I overpaid for the cab ride. The driver had an artificial monopoly because my luggage was already in the back of the SUV. I wasn't about to unload the SUV and look for a better deal, especially that late at night.

Artificial monopolies usually occur when buyers are making one-time purchases. If I frequently rode cabs out of the Quebec City airport, I would have found a cab driver who accepted credit cards, or used Uber, which only allows payment with credit cards. Similarly, if Crichton's expedition team was going to make regular trips into the Congo jungle, they would hire porters on long term contracts. Then, these porters would not try to renegotiate their pay in the middle of a journey because they would want the company to keep them on for future trips.

The key to avoid having to pay high prices caused by a seller who creates an artificial monopoly is to enter into a long-term business arrangement with the seller. Since I will probably never go to Quebec City again, I will never have such an arrangement with a local taxi company. However, since Uber is an international company, I will most likely use their services many times. In fact, the following morning, after arriving in Quebec City, having learned my lesson about the dangers of using cabs, I booked an Uber ride for the first time. The Uber driver did not try to create an artificial monopoly because the payment goes to Uber, not the driver. And Uber gives a potential rider the final price of the ride before he or she books it.

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