
Deregulation— A Green Light for Trucking Efficiency

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THE MOTOR CARRIER ACT of 1980 broadened the reform of trucking regulation initiated in the mid-1970s by the Interstate Commerce Commission (ICC). But it did not go all the way. The commission still (1) restricts entry into the industry, (2) regulates prices, and (3) requires truckers to serve all shippers who want to use the service offered at the prescribed rates. The third of these can, of course, be looked at as giving force to the first two, which are at the heart of ICC regulation.

Before the commission began its own reforms, the industry was by and large happy with what it had, and when the question of reform came up would ask, in effect, "Why tamper with success, particularly ours?" Students of the industry (including, but not limited to, a number of practicing economists) argued that consumers would benefit from reform through better service and lower prices. We have now had three years of ICC-directed reform, followed by two years under the Motor Carrier Act of 1980, and while not all the results are yet in, it is possible to come up with

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some preliminary conclusions. Ours—not necessarily the ICC's—are given in what follows.

In evaluating the effect of regulatory reform on the industry, the condition of the economy must be considered. U.S. economic activity directly affects trucking tonnage and hence the industry's health. Distinguishing between the effects of back-to-back recessions and the effects of regulatory reform is difficult. Regulatory reform has had significant effects, but so too has the severe and prolonged drop in industrial production and in trucking tonnage from 1979 to the present. Industrial production fell sharply in 1980, rebounded weakly, then dropped off again in late 1981; in the first quarter of 1982, it stood about 9 percent below 1979 levels. Intercity truck tonnage fell about 18 percent from 1979 to 1980; it currently stands about 34 percent lower than 1979's highest volume and about 12 percent below the first quarter of 1981.

Trucking Regulatory Reform

Regulatory reform began in the mid-1970s when, on its own, the ICC took significant administrative steps to reduce trucking regulation. A series of decisions made entry freer. New firms could more easily obtain permission

to begin operations, and existing firms could more easily expand into new markets. In addition, the commission began a review of the competitive effects of collective ratemaking and antitrust immunity. It also changed rate bureau procedures to promote individual carrier pricing and launched a search for a better way to evaluate requests for collective rate increases.

The 1980 act further lessened the evidentiary burden placed on applicants and speeded up administrative processing. It also increased rate flexibility and encouraged independent pricing by establishing a "zone of ratemaking freedom" within which carriers can adjust their rates without commission approval. Third, it eliminated or reduced such regulations as those requiring circuitous rather than direct routes. Finally, it provided for the phased elimination of most collective ratemaking, and established an independent study commission to look closely into the effects and desirability of any antitrust immunity for collective ratemaking.

On the very day that these reforms of interstate trucking were enacted at the federal level, a more sweeping change occurred at the state level. On July 1, 1980, Florida totally deregulated trucking and busing within the state. No entry or rate controls now remain, and carriers need only satisfy the state's safety rules. Along with looking at the data on interstate trucking, we will review here some results of the early Florida experience.

Ever since regulatory reform was contemplated, there has been concern about its effects in three main areas. These are—in the order that we now take them up—rates, service to small communities, and industry structure.

The Effect of Reform on Rates

The trucking industry generally seems to have been unsure of the effects of increased rate flexibility and increased competition from freer entry. On the one hand, industry representatives argued that more trucks would compete for the same amount of traffic, average load size would fall, and rates would have to be increased. On the other hand, they argued that large shippers would be able to extract lower rates from carriers, and thus would be subsidized by the small shippers, which would be discriminatory.

Students of the industry having an outside vantage point (we may call them economists for convenience), taking issue with both of these positions, argued that rates would become based on costs and that, since regulated rates include monopoly profits from restricted competition, rates would fall to their natural levels. (Carriers collectively set rates on groups of commodities, by value as well as cost, with the result that high-valued commodities might have rates higher than their costs of shipments justify—or so the economists argued.) Both sides agreed there would be rate restructuring, but the industry thought substantial overall reductions were unlikely, while the economists thought they were quite likely indeed.

As the economists predicted, rates either have fallen or are increasing less rapidly than they were before regulatory reform. Admittedly, circumstances vary, but in many cases real rates are down, and in some cases nominal rates are down as well. In addition, there is little question that many of the rate structurings that have taken place represent movement toward cost-based rates.

No measure of the overall rate level exists, partly because the structure is so complex. But

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a series of monitoring reports from the ICC's (former) Office of Policy and Analysis leaves no doubt about the trend. These reports keep track of all aspects of industry activity, using information gathered from trade publications, general business publications, rate filings, and telephone conversations with carriers, rate bureaus, and shippers. While the evidence is to some extent anecdotal rather than quantitative, we find it convincing.

We note that changes have generally come not in the form of collective rate decreases (or smaller increases), but in a proliferation of individual rates set lower than the collective rates. Carriers have not taken advantage of the

"zone of ratemaking freedom" thrust upon them, but have employed the established procedures for individual rate adjustments through rate bureaus—whether for across-the-board cutting or for cost-based rate restructuring.

Other carrier strategies range from across-the-board rate reductions to cost-based restructuring of particular rates. Overnite Transportation, for example, cut its rates 10 percent across-the-board. Often the rate changes are accompanied by new marketing strategies or new price/service combinations. Transcon Lines combined guaranteed service (with late delivery penalties of up to 20 percent) with a 20 percent discount. Volume discounts and discounts to fill empty back hauls (return trips) have become particularly common.

"Multiple tender discounts" are another good example of the trend toward cost-based rates. These are discounts given when a shipper has several shipments—going to different destinations—picked up at the same time. Until recently, the charge to a shipper was typically the same whether a carrier had to make one pickup of several shipments or several individual pickups. Yellow Freight System's multiple tender discounts, for example, range from 3 to 20 percent depending on the shipment's total weight.

Table 1 measures the rate effects of regulatory reform by comparing the number of independent rate proposals made by members of the ten major trucking rate bureaus from 1975 through 1981. Almost all the proposals were, in fact, rate reductions. Comparisons among bureaus are vitiated by lack of uniformity in the way the different bureaus count independent

proposals; each bureau should be considered separately. While not all bureaus show a systematic increase in independent proposals over time, in each case, a bureau's 1980 total is higher than the figure for any year from 1975 to 1979. From 1979 to 1980 the increases ranged from 44 percent to 347 percent and the total number of independent actions increased 123 percent. From 1980 to 1981, the total number of proposals increased 90 percent, while individual bureau proposals increased as much as 1,442 percent. In all, the average number of proposals was 20,685 for the years 1975-79 and 87,842 for 1980-81.

Early experience in Florida suggests that intrastate rates in that totally deregulated environment are down as well. One ICC study provides some actual rate data on eight origin-destination pairs, movements from Tampa to eight different destinations in Florida. These movements were of varying lengths and to cities of varying sizes. For each city pair, nine rates were reported, covering three different shipment sizes, and for each size, three different classes of commodities. The results are given in Table 2. Most of the seventy-two rates are down in nominal terms between March 1980 and March 1981, and virtually all of them decreased in real terms. The biggest reductions occurred in the highest classes (class 100 and class 150), which get the highest rates. These are the rates on commodities that reform advocates have argued are discriminated against. While these data cannot be taken to represent rate changes throughout all of Florida, they are consistent with the reformers' claim that the collective ratemaking system discriminates against high value commodities and that rates on those commodities—having been set furthest above cost—will fall the most with deregulation.

While everyone agrees that the rates are decreasing (or at least increasing at a decreasing rate), some industry observers have argued that rate reductions have come about because of the depressed economy rather than the new legislation. Quite likely this is true in part, but a comparison of 1975 (the last economic downturn) with 1980 and 1981 shows the level of independent proposals in the latter years to be higher in every case (where data are available). ICC administrative actions in 1978 and 1979, reforming rate bureau procedures and (concomitantly) relaxing entry requirements, plau-

Table 1
NUMBER OF INDEPENDENT RATE PROPOSALS AT
MAJOR RATE BUREAUS, 1975 THROUGH 1981

Rate Bureau	1975	1979	1975-79 Average	1980	1981
Central & Southern	1,073	686	794	2,035	7,253
Central States	NA	1,621	1,691	2,744	7,126
Eastern Central	1,503	NA	1,301	2,051	6,877
Middle Atlantic	1,340	2,160	2,078	3,117	7,827
Middlewest	1,834	19,072	10,352	40,845	55,883
New England	492	561	507	949	1,505
Niagara Frontier	0	25	8	45	694
Pacific Inland	37	NA	28	100	253
Rocky Mountain	613	295	452	1,318	13,921
Southern	4,457	2,721	3,474	6,396	13,746
Total	11,349	27,141	20,685	60,600	115,085

Source: ICC, Rate Bureaus and Organizations Annual Reports.

Table 2
 CHANGES IN NOMINAL RATES ON SHIPMENTS FROM TAMPA, FLORIDA,
 TO EIGHT DESTINATIONS IN FLORIDA, MARCH 1980 TO MARCH 1981
 (population in parentheses)

Shipments	Percentage Changes								
	Jacksonville (565,000)	Orlando (118,000)	Sarasota (46,000)	Leesburg (11,869)	Miami (345,000)	St. Petersburg (236,000)	De Funik Springs (4,966)	Immoka lee (3,764)	
250 lbs., 3 pieces									
Class 55	2.7%	2.5%	2.5%	2.5%	15.0%	2.5%	45.0%	2.5%	
Class 100	2.5	2.5	2.5	2.5	2.5	2.5	3.6	2.4	
Class 150	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	
450 lbs., 2 pieces									
Class 55	-2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	
Class 100	-25.7	-24.6	-28.2	-27.0	2.5	-10.0	2.5	-24.5	
Class 150	-47.7	-12.4	-47.2	-47.3	0.6	-37.0	2.5	-46.6	
5800 lbs., 6 pieces									
Class 55	-14.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	
Class 100	-29.9	-27.0	-31.0	-31.0	-2.6	-11.5	-2.6	-31.0	
Class 150	-53.1	-51.2	-54.2	-53.8	-2.6	-41.1	-2.6	-53.6	

Source: ICC, *Initial Carrier and Shipper Responses to Interstate Trucking Deregulation in Florida*, p. 10; population figures from Rand McNally, 1978 Commercial Atlas & Market Guide.

sibly account for the difference in independent pricing conduct between 1975 and the current period.

More concrete evidence that reform has affected rates is provided by the fall in the value of carrier operating rights. These rights—a carrier's permission to operate in a regulated trucking market—can be bought and sold in the marketplace. Their market value is the present value of future profits to be made in the industry, above and beyond what could be made in other industries (the "normal" rate of profit). Since the passage of the Motor Carrier Act of 1980, these operating rights have lost virtually all their value, though some purchases continue. Recognizing this loss in value, the Financial Accounting Standards Board (FASB), which establishes accounting rules for the industry generally, has ruled that, because of the act, the value of all interstate rights on a carrier's books should be reduced to zero. If carried out, this means that roughly \$775 million will have been written off by carriers whose annual revenues exceed \$1 million each. But this is only part of the iceberg. Many carrier rights have never been sold, which means that they do not appear on the books at all: the American Trucking Associations have estimated that the real value of operating rights was between 15 and 20 percent of carriers' annual revenue—or between \$5.1 and \$6.8 billion for the class of carriers whose annual revenues exceed \$1 million each. To say the least, this is a

figure large enough to have reflected significant above-normal profits, and thus higher rates.

An economic downturn alone would not have produced this (say) \$6 billion loss. Freer entry and freer pricing policies together have forced the present value of future above-normal profits in the industry toward zero. At least to this extent there is evidence that rate decreases are directly attributable to regulatory reform rather than to the economic downturn. Thomas Gale Moore, appearing before the Joint Economic Committee in January 1982, stated that operating rights have regained market value since the summer of 1981. There is no evidence, however, that rights have attained a significant fraction of their former value. Wilson Freight Company, for example, paid \$2.4 million for Cincinnati-to-Atlanta rights six years ago and recently sold that authority for \$6,000.

The Effect of Reform on Small-Community Service

We have noted that both administrative reforms before 1980 and the Motor Carrier Act itself reduced barriers to entry: the expected effect would be an increase in competition, reducing profits to "normal" levels. Industry advocates argued that the increased competition would force carriers to reduce or eliminate service to small communities, because (they insisted) that service was cross-subsidized by

profits on service to large communities. Small communities that continued to get service might be charged rates above what was "fair and reasonable." But since the ICC had always permitted the dropping of unprofitable service, and had *never* revoked a carrier's authority for failure to fulfill common-carrier obligations in a money-losing market—so, at least, the economists argued—this worry was overstated, if not pure chimera. In fact, the economists argued, with freer entry, new efficient carriers would begin serving smaller communities.

Fortunately, the accuracy of the two sides' projected results can be determined empirically. An ICC survey of 1,200 shippers in small communities across the nation shows that shippers generally believe that both the availability and quality of service improved after the law was passed. Questionnaires were mailed out in January 1981, July 1981, and January 1982. Table 3 summarizes some of the key results from the survey's latest phase. Specifically, 10.0 percent said availability had improved, 3.3 percent said it had declined, and 86.7 percent reported no change. Similarly, averaging among the four quality measures, we could say that somewhere around 9 to 10 percent thought quality improved, perhaps 2 to 3 percent thought it worse, and 87 to 89 percent found no significant change. Indeed, only on one quality measure—ease of claim resolution—was there a negative change.

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ICC complaint records also shed light on the small-community service issue, and these records show no increase in service problems. Instead, the absolute number of small-community service complaints was lower in October 1980 than in October 1979, and the proportion of small-community service complaints to total service complaints remained constant. One problem is that we lack the data to determine the direction and significance of small-community rate changes, if any, though the Florida

Table 3
SHIPPERS' EVALUATION OF CHANGES IN ASPECTS OF SERVICE TO SMALL COMMUNITIES

Type of Shipper	Service Aspect	Percentage Answering—		
		Better or more	About the same	Worse or fewer
Receivers of freight	Availability	10.0	86.7	3.3
	On-time performance	12.0	86.0	2.0
	Lack of damage/loss	14.4	82.5	3.0
	Ease of claim resolution	2.8	93.4	3.8
Senders of freight	Service options	5.9	92.1	2.0
	Availability	8.7	89.3	2.0
	On-time performance	9.6	88.1	2.3
	Lack of damage/loss	7.0	92.6	0.4
	Ease of claim resolution	2.5	96.7	0.7
	Service options	9.1	88.1	2.1

Source: ICC, *Small Community Service Study*, forthcoming, September 1982.

data (Table 2) suggest rate reductions to the small communities there.

The Effect of Reform on Industry Structure

The trucking industry seemed generally to believe that reform would bring a host of under-capitalized—and cream-skimming—small carriers into the industry. Many of these carriers would price their services below costs, stimulating rate wars. They would eventually fail, but in the meantime they would drive other "responsible" carriers out, and the net long-term effect would be increased concentration. After the shakeout most of the industry would be dominated by a handful of large carriers, free to charge quasi-monopoly prices. In short, there would be destructive competition and predation.

Economists outside the industry argued that low fixed costs (relative to total costs) and the ability to change capacity relatively quickly meant that carriers profitable in the long run could not be driven out of the market in the short run. Moreover (they argued), since—over a broad range of firm sizes—large trucking firms enjoy no cost advantages over smaller firms simply as a result of their size, large firms would not drive efficient small firms out of the market. Competition would simply enable efficient firms to drive out inefficient firms.

Once again, we can come up with an empirical answer to the destructive competition

question, just as we came up with an empirical answer to the small community question. It should be noted here that, even if the long-range effect of regulatory reform were to reduce the number of carriers, this would not necessarily reduce the number of competitors, and certainly would not necessarily reduce competition. The trucking industry does not consist of a single market but of a complex set of interrelated markets covering different commodity groups and territories. If regulatory reform produces a smaller number of firms, each operating in a greater number of markets, then there can be more firms and less concentration (greater competition) in every market, even though there are fewer firms in the industry overall.

Our empirical tests here are several—profitability of firms (as an indication of possible destructive competition), the number of firms in the industry (as an indication of possible increased concentration), and the number of applications for additional or new authority granted (as a direct measure of increased competition). None of these is a perfect measure, but taken together they should give us some idea of the effect of reform on industry structure.

For profitability let us consider the operating ratio (operating expenses as a percent of operating revenues) for a sample of general freight carriers each with at least \$1 million in revenue. This ratio was 96.4 percent for 1980, slightly better than the 96.6 percent for 1979 and the 96.7 percent for the previous recession year of 1975; but for 1981 it rose to 97.7 percent. Not all carriers, however, did poorly in 1981. According to a Citibank report, the twenty-one carriers that are publicly traded had a 25.3 percent return on net worth in the past calendar year. Certainly these pieces of evidence point away from any harm having accrued to the structure of the industry as a result of reform.

Trucking profits historically rise and fall with general economic activity. The industry rebounded strongly from its slump during the 1975 recession and had relatively high profits in the late seventies. Its current slump is comparable in severity to that of 1975, and there is no evidence the industry will not rebound with the general economy. Yet, since regulated carriers no longer earn monopoly profits, their

profit levels may never return to the levels prevailing before the act.

Some large-firm failures have been well publicized, but whether the overall rate of exit since the act passed has been abnormally high (given the state of the economy) is unclear. For

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one thing, exit data are poor. The ICC has discredited figures from the Teamsters showing a high number of failures, and similar findings by the ATA have not been verified independently. Second, the meaning of the exit rate is clouded further because the Multi-Employer Pension Plan Amendments Act of 1980 greatly increases carriers' pension liabilities, thus discouraging carriers from going out of business. Industry observers believe the carrier failure rate would be substantially higher were it not for that act. Even with the act, the failure rate is probably high. But with general business failures now at a post-depression high, the economy would seem to be the main culprit. The General Accounting Office recently released a report concluding that "poor economic conditions, not regulatory reform, have been the likely cause of high unemployment in the trucking industry."

A high failure rate is not a priori evidence of destructive competition. Exit from the industry is destructive only if capacity needed in the long run is being forced out in the short. It is constructive if it represents the market's natural tendency to rid itself of unneeded capacity. To judge whether an above-normal rate of exit is destructive or constructive, given the short time since the act has passed and given that we do not know if there has been an above-normal rate, would be rather like trying to guess the color of a purely hypothetical pig in a purely hypothetical poke.

Fortunately, we have better tests for concentration and competition. As Table 4 shows, the number of regulated carriers in the industry has been increasing in recent years, moving from 17,083 in 1979 to 22,270 in 1981. Interest-

ingly, Class III carriers (those with under \$1 million in annual operating revenue) showed the greatest increase. However, the number of Class I carriers (the largest carriers) rose 4

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percent from 1979 to 1981, despite a rise in the Class I revenue requirements from \$3 million to \$5 million in 1980. Also, as Table 5 shows, the total number of applications decided each year and the number granted as a whole or in part have both increased dramatically. Specifically, the percentage of decided applications granted wholly or partly rose from 69.8 percent in 1976 to 96.7 percent in 1981 and 97.5 percent in the first half of 1982. The grants are for carriers of all sizes, for hauling general commodities as well as specialized commodities requiring specialized equipment, and for all geographic regions. They are for both small-shipment operations, which require consolidation and distribution through terminals, and large-shipment operations, which do not. While most of the grants have gone to existing carriers expanding into new markets, a significant portion—in 1981, some 3,782 grants or 13.3 percent—has gone to newcomers (mostly for large-shipment or truckload operations). So far in 1982, 3,121 decisions have involved newcomers.

Moreover, the figures in Table 5 understate the actual increase in entry into individual markets because authority grants are broader and

Table 4
NUMBER OF REGULATED TRUCKING FIRMS
BY SIZE, 1979-81

Class ^a	1979	1980	1981	Percentage Change	
				1979-81	1980-81
Class I	992	947	1,031	+ 3.9	+ 8.9
Class II	2,754	2,164	2,293	-16.7	+ 6.0
Class III	13,337	14,610	18,563	+39.2	+27.1
Total	17,083	18,045 ^b	22,270 ^c	+30.4	+23.4

Note: The figures in this table are ICC estimates and do not reconcile with Table 5's figures on new carrier authority grants.

a Class I includes carriers with annual operating revenues in excess of \$3 million in 1979, and of \$5 million in 1980 and 1981; Class II includes those with annual operating revenues between \$500,000 and \$3 million in 1979, and between \$1 million and \$5 million in 1980 and 1981.

b Includes 324 Class I and II carriers relieved from reporting requirements.

c Includes 383 Class I and II carriers relieved from reporting requirements.

Source: ICC annual reports.

less restrictive now than they were before regulatory reform. Broader grants of authority translate into more direct competition among carriers. A study of application samples has shown that authority applications contained fewer restrictions in 1981 than in 1976 or 1980—most notably in the matter of one-way authority. While 84 percent of the 1976 and 49 percent of the 1980 applications were for authority to haul in one direction only, none of the 1981 applications had this restriction. (Largely because of changes in the makeup of the commission, grants appear to have become somewhat more restrictive in fiscal 1982 than they were immediately after passage of the act. Some grants have been restricted to territories and commodities specifically described by shippers supporting the application. Nonetheless, grants remain significantly broader than they were before the advent of reform.) In addition, through June 1982, some 5,000 carriers succeeded

(Continues on page 56)

Table 5
OPERATING AUTHORITY APPLICATIONS, 1976-82

Fiscal Year	Number of Applications Decided		Number of Applications Granted as a Whole or in Part		Percent Granted	
	All firms	New firms only	All firms	New firms only	All firms	New firms only
1976	6,746	558	4,710	468	69.8	83.9
Transition quarter	1,308	224	958	156	73.2	69.7
1977	7,848	1,161	6,038	850	77.0	73.2
1978	9,767	629	8,684	528	88.9	83.9
1979	12,744	748	12,233	689	94.5	92.1
1980	22,735	1,461	22,125	1,423	97.4	97.4
1981	28,414	3,782	27,475	3,702	96.7	97.9
1982 (first 6 months)	7,968	3,121	7,771	3,017	97.5	96.7

Source: ICC, Office of Proceedings.

customers. By then utilities, environmentalists, residential customers, and FEA experts were all supporting marginal-cost pricing, but Kahn still had to win the approval of large industrial users. The eventual rate structure approved for Long Island Lighting was a compromise of marginal-cost principles: it was agreed that no class of consumer would have to pay more than it had under the old ratesetting method. Even though the new rate structure did not differ greatly from average-cost pricing, it was considered a major innovation.

In California, rate revision took a much different path. Leonard Ross, Governor Jerry Brown's first appointment to the California Public Utility Commission, behaved as a "political entrepreneur," Anderson says, in leading an effort on behalf of lifeline rates. Paying no heed to the commission staff's opposition to the scheme, he devoted his energies to developing external support from coalition groups claiming to speak for the poor and elderly, residential consumers, labor unions, and environmentalists. Eventually the commission was persuaded to endorse the plan, and lifeline rates were subsequently approved in September 1975 by the California legislature.

New York, Anderson says, is an example of a "bureaucratic" style of regulatory behavior. Ongoing staff involvement and cooperation is needed to formulate and implement a marginal-cost pricing policy, which means that internal organizational harmony is essential. California, on the other hand, is an instance of "entrepreneurial" regulatory behavior, the author says. A lifeline rate structure, unlike marginal-cost pricing, takes little effort to manage once it is installed. Thus it is suited to an "issue campaign" strategy in which the marshaling of outside pressure takes the place of internal agency support. Neither state, he adds, is an example of "capture," since in both cases regulators faced more than one active external pressure group.

The summary of Social Regulation: Strategies for Reform included in our last issue (May/June 1982, pp. 54-55) omitted mention of one of the authors, Michael H. Levin of the Environmental Protection Agency, who contributed the chapter entitled "Getting There: Implementing the 'Bubble' Policy." We regret the error.

A Green Light for Trucking Efficiency

(Continued from page 42)

ed in getting restrictions removed from their authorities, leaving them freer to shorten circuitous routes, to serve intermediate points on those routes, and to haul a more broadly defined group of commodities. All of this, of course, increased efficiency and competition.

A Summary of Effects

The net result of administrative and legislative reform is a more competitive and more efficient industry, with lower prices (rates) and better service for consumers. While some part of the lower rates may be attributed to the economic downturn, the loss in the value of operating rights and the unprecedented increase in independent rate proposals are strong evidence that the downturn is not solely—indeed, is not mainly—responsible. The amount and quality of service to small communities seems to have risen, and increases in entry and new authority grants signal a less concentrated industry.

It will be several years before we can make a complete assessment of the long- and even short-term effects of trucking regulation reform. But the weight of the evidence seems to support the arguments made by the outside observers, that regulatory reform would benefit consumers—in other words, would benefit society as a whole. It is our belief that the burden of proof is squarely on those who would argue the contrary. ■

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