RAIL AND TRUCK REFORM–THE RECORD SO FAR

Thomas Gale Moore

ALMOST AS SOON AS Congress passed the Motor Carrier Act of 1935, economists started asserting that the trucking industry was inherently competitive in structure and in no need of regulation. After World War II, they began to claim that railroads were overregulated too. The proponents of change argued that ICC controls were protecting both industries from competition, keeping rates high and blocking efficient use of resources. Some, including myself, also pointed out that organized labor was reaping large gains from regulation.

Supporters of the status quo, on the other hand, said deregulation would produce chaos, cut-throat competition, and eventual monopolization of surface freight transport by a few large firms. These firms would then be able to raise their rates above the earlier controlled levels. Moreover, deregulation would lead to the wholesale abandonment of truck and rail service to small communities and a decline in service quality.

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Now that we have had several years' experience with at least partial deregulation of railroads and trucking, we can proceed to evaluate the claims. To do so we must pick a year to treat as the start of deregulation. Congress, it will be recalled, passed its major legislation on the subject in 1980, but deregulation had already begun at the Interstate Commerce Commission (ICC) a few years before that. Here, we will treat 1979 as the first deregulation year for railroads and 1978 as the first year for trucking.

The Beginnings

For both industries, the process of decontrol actually began in the Ford administration. The ICC took the first step in June 1975 when it ruled that rate bureaus could not protest independent rate filings by members. On December 30, 1976, in another significant move, the commission approved—although over a strong dissent from its traditionalist members—a major expansion of the bounds of the commercial zones for trucking around major cities, within which traffic had long been free from ICC con-

trol. Also in 1976, responding to the Penn Central bankruptcy of 1972, Congress passed the Railroad Revitalization and Regulatory Reform Act, called the 4-R Act. This act, which gave railroads some limited rate freedom, was a landmark—the first legislation to reduce regulation of any transportation sector in the history of the United States.

Two years passed before the next formal loosening in ICC controls. Meanwhile, however, commission members became increasingly outspoken about the desirability of reducing regulatory constraints. They also started to take an increasingly benign view of applications for new trucking authority, granting most of them without requiring the applicant to prove that existing carriers could not or would not provide the proposed service. Then, beginning in late 1978, the commission made a series of significant decisions. In November, it ruled that companies hauling their own goods could also apply for interstate trucking authority to haul for others; and it held, in a decision that probably exceeded its statutory authority, that railroads could enter into long-term contracts with shippers. A few months later, it abolished the restrictions preventing contract truckers from serving more than eight shippers. It also expanded airport zones, which are exempt from trucking regulation, and announced that it would consider rates as a factor in granting operating rights to truckers. In May 1979, acting for the first time under a provision in the 4-R Act, the commission exempted from control rail movements of fresh fruits and vegetables.

In March 1979, President Jimmy Carter sent a bill to Congress that would have largely deregulated the railroad industry. This was followed in June by a joint proposal from the President and Senator Edward Kennedy to remove most controls from the trucking industry. In the next few months, Congress held hearings on both the rail bill and the trucking bill. Meanwhile, in October, the commission adopted a policy of easing entry into both the bus and trucking industries.

By this time, the trucking industry and Congress had become quite concerned that the ICC was going well beyond its statutory mandate. Senator Howard Cannon, chairman of the Senate Commerce Committee, speaking at an ICC-sponsored meeting, warned that Congress "was mad as hell" (*Wall Street Journal*, October 23, 1979). He advised the commissioners to proceed cautiously and promised that, if they held off from further deregulation, he would get a bill out of Congress on trucking regulation by June 1, 1980. He almost made his deadline: the Motor Carrier Act, a much more modest reform than the Carter-Kennedy proposal, was passed in mid-June. Congress followed that up with the Staggers Act in the fall. The commission acted swiftly to implement these new regulatory freedoms.

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A few years ago, surface freight transportation was among the most heavily regulated activities in the United States. That has now changed dramatically. And as I shall argue below, the changes have produced enormous benefits for consumers and shippers. On the railroad side, the major benefit has been useful new services; in trucking, it has been the decline in rates.

Railroads

The Staggers Act of 1980 limited ICC jurisdiction over rates to those rates where railroads exercise "market dominance," and narrowed the definition of such dominance from what it had been under the 4-R Act. This means that nearly two-thirds of railroad rates are now free from maximum-rate regulation. The act also gave railroads more freedom to reduce rates, by providing that the ICC cannot reject a rate reduction unless the reduction puts the rate below variable cost.

In addition, the act extended the authority originally granted to the ICC in the 4-R Act to exempt particular kinds of traffic from all rate controls. Starting in 1979 with fresh fruits and vegetables, the commission has used this exemption power to deregulate rates in a number of areas—citrus pomace, piggyback traffic, coal for export, and boxcar shipments and interchange.

The 1979 exemption of fresh fruits and vegetables has been a great success. The railroads have used their new freedom to cut rates when demand is low and equipment available, and raise them when demand is high and equipment in short supply. They have also offered low back-haul (return-trip) rates to fill containers and cars that previously had to return empty. The exemption has permitted such western railroads as the Santa Fe, the Burlington Northern, the Southern Pacific, and the Union Pacific to expand their fruit and vegetable traffic greatly. In just one year, 1980, the railroad share of the perishables market rose from 11 percent to almost 15 percent. And as Table 1 shows, in the three years after the exemption, the railroads more than doubled the amounts of fruits and vegetables they carried, while other traffic grew only modestly, if at all. The doubling is especially significant because rail carriage of perishables had been steadily and precipitously declining.

Table 1

RAILROAD TRAFFIC, SELECTED YEARS, 1969–82

	Index of Rail Carloadings (1978=100)						
Traffic	1969	1975	1978	1979	1980	1981	1982
Fruit	632	274	100	104	136	196	232
Vegetables	538	284	100	92	140	203	232
Coal	116	106	100	119	129	130	128
Grain	96	100	100	107	117	101	95
Piggyback traffic	84	71	100	101	90	95	105

Source: American Railway Association, *Freight Commodity Statistics*, 1970–1982.

In the three years after the [ICC exempted fruits and vegetables from regulation], the railroads more than doubled the amounts . . . they carried. . . .

The figures in Table 1 also show strong growth in the carriage of coal and piggyback shipments. The increasing coal business reflects the railroads' success in negotiating long-term contracts, following the ICC's November 1978 ruling on this subject. The healthy gains in piggyback traffic in 1981–82 reflect the ICC's decision of March 1981 to deregulate most aspects of that traffic. This growth was a remarkable achievement considering what bad years those were for traffic generally. Truckers, for example, which are railroads' partners in the piggyback business, experienced about a 15.5 percent drop in all traffic in 1981; and total intercity ton-miles moved by all modes fell by about 9 percent in 1982. To take another measure, the railroads increased their share of the surface transport market from 33.2 percent in 1975 to 36.4 percent in 1982. Trucking, meanwhile, was nearly stagnant, rising only 44.1 percent to 44.6 percent in the same period. No doubt the railroads' superior performance was caused partly by the sharp increase in fuel prices—for fuel is a bigger portion of trucking costs than of rail costs—but the deregulation of perishables and of piggyback traffic must have been significant also. (Incidentally some railroads view the rise in piggyback traffic as a mixed blessing, arguing that much of it is simply diverted from higher-priced boxcar traffic.)

In March 1983, responding to the railroads' petition of more than a year earlier, the commission used its exemption power once again: by a three-to-two vote it decided to free rates on coal bound for the export market (effective October 1983). The likely impact of this decision is unclear. While some coal mines may be "captive shippers" of the railroads, foreign competition for coal and domestic regional competition for the coal export markets will constrain the railroads from exploiting any monopoly position. The coal companies have appealed this decision to the courts.

Also early in March, by the same vote, the commission exempted from regulation the rates for shipping commodities in boxcars and the rates for moving and storing empty cars owned by other railroads. (The ruling is effective January 1984, except that the changes for boxcars owned by the smallest railroads, Class III, do not become effective until July 1, 1984.) Finally, the ICC has also exempted shipments of many additional agricultural products from rate regulation.

The Staggers Act also included a provision authorizing railroads to enter into long-term contracts with shippers, which essentially ratified the ICC's 1978 ruling on the subject. Some 5,000 contracts were on file at the ICC in February 1983, most of them with coal producers. For example, Illinois Central Gulf negotiated a

twenty-year contract with Hoosier Energy, in which Hoosier agreed to advance $9 million to improve ICG's roadbed in return for a lower rate. Other contracts have eliminated empty back hauls for unit trains, established a three-railroad unit train to haul phosphate, and made Conrail competitive with trucks on some short hauls. For the nation's railroads, the single most beneficial provision of the Staggers Act may be freedom to contract.

In 1981, Congress enacted the Northeast Rail Service Act which required that the ICC grant within ninety days all Conrail abandonment requests filed before December 1, 1981, unless an offer to purchase or subsidize operations was tendered. Conrail has estimated that this allowed it to rid itself of 2,600 miles of lightly used track by July 1983—about 15 percent of its total track-miles and 1 percent of its revenue-miles—and another 1,000 miles by October. Extending such a provision to other railroads would result in a much improved railroad industry free of the burden of servicing many low-demand areas.

Table 2
RAILROAD INDUSTRY PERFORMANCE, SELECTED YEARS, 1969–82

	1969	1975	1978	1979	1980	1981	1982
Operating revenues (millions) *	$30,147	29,416	32,137	33,536	32,920	32,793	29,504
Net operating income (millions) *	$1,724	629	632	1,111	1,566	1,444	742
Revenue ton-miles (billions)	768	754	858	914	919	910	798
Revenue per ton-mile *	$3.55	3.66	3.49	3.46	3.34	3.37	3.21
Miles of track (thousands)	208	199	191	185	179	168	n.a.
Employees (thousands)	578	488	472	483	459	436	379
Average earnings							
hourly *	$9.98	11.46	12.47	12.26	11.96	11.82	12.26
annual *	$24,418	27,482	30,438	30,034	28,885	28,335	29,087

* In 1982 dollars.
Source: Association of American Railroads, *Railroad Facts*, 1983 edition.

. . . rail profits more than doubled between . . . 1978 and 1981; and even 1982, a poor year for the economy and for railroads, was more profitable than was 1975, also a recession year.

The partial loosening of regulatory constraints on the railroads has been very beneficial. As Table 2 indicates, rail profits more than doubled between the pre-deregulation year of 1978 and 1981; and even 1982, a poor year for the economy and for railroads, was more profitable than was 1975, also a recession year. In part this was because the new competitive environment permitted or forced the industry to reduce labor costs. While the industry had been reducing its labor force for decades, the 20 percent decline in employees from 1978 to 1982 was unusually sharp. Over that period, real average hourly earnings were approximately level while annual compensation declined 4.4 percent. The decline in compensation cannot be attributed to deregulation because it was less than the decline in real earnings for the economy as a whole over the same period.

Revenue per ton-mile, a proxy for rates (albeit an imperfect one), fell about 7.5 percent from 1978 to 1982 and even more from 1975. This is consistent with the results of my survey of major shippers (described below), which showed that the rates they paid fell in real terms some 9 percent from 1978 (see Table 5, line 3). Interestingly, according to those survey results, rail rates did not start to decline until 1979 and declined less than trucking rates. This could be expected, because the railroads supported deregulation at least in part to gain some freedom to raise rather than lower rates. Nevertheless, for many kinds of shipments, such as fresh fruits and vegetables, railroads have reduced their charges.

The new freedoms for railroads have been highly successful. Rates have declined, yet profits are up. Shippers are generally satisfied. Only organized labor—which has lost some jobs—has suffered from the new push for more streamlined service.

Trucking

The Motor Carrier Act of 1980 substantially relaxed controls on trucking. Its most significant provision shifts the burden of proof from the firms that apply for operating authorities (licenses) to the protestors. Whereas formerly the

applicant had to show that the requested authority was "required" by public convenience and necessity, now the *protestor* must show that such authority would be "inconsistent" with the public convenience and necessity. Furthermore, only truckers that already have authority to offer the proposed service are permitted to file protests, and a diversion of revenue from existing carriers is not to be construed *in itself* as inconsistent with the public convenience and necessity. The act also directs the commission to provide procedures for permitting carriers to reduce restrictions on their operating authority, such as gateway requirements, narrow definitions of the goods they can transport, restrictions on back hauls, restrictions on service to intermediate points, and narrow territorial limitations.

Actually, as already noted, the first loosening of trucking controls occurred in 1975, entry became significantly freer in 1978, and major rule reform was under way in 1979. In fact, the Motor Carrier Act of 1980 was a case of Congress's rushing to codify—and limit—the change.

Effects on Operating Licenses. Probably the best indicator of the looseness of regulatory reins is the value of operating licenses. Table 3 gives average license values between 1975 and 1982, with average value calculated from a sample of sales that occurred in a period around mid-year. (The number that occurred in June is also listed to show the trend in activity.) Back when regulation was very strict, licenses sold for thousands and sometimes millions of dollars. License values dropped in 1978, but it did not become clear until 1979 that deregulation was beginning to have a major effect. That year, the number of licenses sold in June declined sharply; even more significant, the value of those sales fell by more than 80 percent, from well over $400,000 on average in the previous four years to about $55,000. In 1980, there were only three transactions in June and only four in the total sample, so the figure of $171,000 has little significance. By 1981 and 1982 the value of the few operating licenses that were sold was negligible.

Not only are there more new truckers, but a great many existing truckers have received expanded authority. So competition has grown far more than the figures show.

As is generally known, entry into the trucking industry has become progressively easier. The number of applications for new authority from both existing and new carriers has ballooned since 1975, as has the percentage of such applications approved by the commission. The results can be seen in the last column of Table 4, which shows a gradual rise in the number of licensed property carriers through 1979 and then a series of sharp jumps of 1,000 in 1980, more than 4,000 in 1981, and 3,400 in 1982. The influx of new licensed carriers is reflected in the sharp decline in license values in 1979. But the figures do not tell the full story. Not only are there more new truckers, but a great many existing truckers have received expanded authority. So competition has grown far more than the figures show.

Table 3
SALES OF TRUCKING LICENSES,[a] 1975–82

Year	Number in Sample	Average Sale Price ($ 1982, thousands)	Number in June
1975	20	$398	43
1976	17	579	23
1977	28	531	15
1978	25	370	36
1979	24	55	13
1980	4	171	3
1981	1	13	3[b]
1982	2	15	0

[a] Common carriers only. [b] For February through June.
Sources: *Traffic World* (various dates) and ICC trucker finance cases.

Table 4
ENTRY INTO THE TRUCKING INDUSTRY, 1975–82

Year	License Applications[a]		Percentage Granted		Number of Firms[a]
	Existing firms	New firms	Existing firms	New firms	(year end)
1975	2.8	.3	55	61	16.0
1976	6.4	.6	61	62	16.5
1977	8.6	.6	65	72	16.6
1978	13.0	.7	69	78	16.8
1979	20.7	1.0	69	80	17.1
1980	18.8	1.5	73	86	18.1
1981	19.1	4.6	88	85	22.3
1982	9.2	4.9	84	55	25.7

[a] In thousands.
Source: ICC, special preparation for author and *Annual Report.*

Effects on Rates. Table 5 gives an index of freight rates paid by shippers over the period 1975–82. These data come from two surveys of shippers I conducted in early 1983. In the first survey I queried twenty-seven firms that had actively participated in the Business Council, a lobbying organization whose objective was to secure reduced regulation. Sixteen firms responded, eleven of them providing usable data, with seventeen responses in all (because some firms submitted separate divisional responses).

Table 5
REAL TRUCKING RATES
AND EMPLOYEE COMPENSATION, 1975–82

	Indices of Rates and Compensation							
	1975	1976	1977	1978	1979	1980	1981	1982
Actual Rates Paid by Shippers								
Truckload	100	100	100	99	95	88	81	75
Less-than-truckload	100	103	105	104	101	98	91	89
Rail	100	102	96	102	101	100	90	93
Los Angeles–Denver Posted Rates (Class 100)								
Truckload	100	102	101	n.a.	93	90	89	102
Less-than-truckload	100	105	107	n.a.	103	103	110	117
Average Compensation								
All employees	100	94	103	96	94	93	87	n.a.
Drivers and helpers								
per mile	100	117	124	109	105	105	106	n.a.
per hour	100	88	114	92	92	92	92	n.a.

Note: Sample sizes were 35 for truckload rates, 30 for less-than-truckload rates, and 23 for rail rates.
Sources: Author's survey as described in text (for actual rates); ICC rate filings (for posted rates); and ICC *Annual Reports* and ICC *Transport Statistics in the United States* (for compensation).

Since it seemed plausible that the first results would be biased toward firms that profited from deregulation, I conducted a second survey. Included from the *Fortune* 500 were 79 of the 115 largest industrial firms, 99 of the 115 smallest firms, and 40 of the 50 largest retailers (the others either were covered in the earlier survey or the individual to be contacted was unavailable). Overall, some 32 percent of the firms responded, with 27 percent providing usable data. Here, as in the first survey, some firms provided responses from their different divisions. In presenting the data from both surveys, I have treated such divisions as separate entities.

In both surveys, I asked the firms to provide an index of freight rates paid for truckload (TL), less-than-truckload (LTL), and rail shipments over the 1975–82 period. I also asked their opinion of service quality following the Motor Carrier Act of 1980. There were no statistically significant differences between the results of the two surveys, although the respondents to the first were a little more enthusiastic about the effects of deregulation. Furthermore, there was no statistical difference between the views of the smaller and the larger firms on the impact of the 1980 Motor Carrier Act. The results of the combined surveys are given in Tables 5 and 8.

As Table 5 shows, over the 1975–82 period real rates (adjusted by the consumer price index) fell significantly. They declined steadily after 1976 for truckload shipments and after 1977 for less-than-truckload shipments, suggesting that even the modest deregulation of 1976 and 1977 had some effect. Part of the decline is attributable to the economic recessions of 1979 and 1981. Truckload rates decreased more dramatically than less-than-truckload rates, because more truckers entered that part of the business.

Table 5 also gives trucking rates filed with the ICC for general commodity shipments on the Los Angeles–Denver run for one class of general commodities. Whether these figures are typical cannot be ascertained, but they do indicate that rates began to fall after 1977 and they also reflect the greater decline in rates for full truckload shipments that showed up in our shipper data. In 1980 or 1981, however, rates began to rise, so that there was no net decline comparing 1977 and 1982. This is puzzling, given the sharp fall in rates actually paid by shippers.

Finally, labor costs also fell sharply after 1977—about 16 percent for all workers and 19 percent for drivers and helpers paid on an hourly basis, the group that makes up the core of the Teamster members in trucking. Thus, the Teamsters' opposition to deregulation made sense from their point of view: deregulation has lowered their earnings sharply.

Table 6, which gives financial data on Class I and II regulated truckers, shows that their average revenue per ton-mile declined over the period 1977–81 by about 10 percent. This is less than the fall in rates paid by our survey companies but much more than the fall in Los Angeles–Denver posted rates. Apparently independent and special commodity rates became more important and undercut the general class structure of rates. (Commodities are divided into

classes for ratemaking purposes, but increasingly carriers are filing special rates for specific commodities outside the structure.) The huge rise in independent rate filings reported by the ICC in its 1981 study, *The Effect of Regulatory Reform on the Trucking Industry,* supports this interpretation.

The decline in trucking rates after 1977 cannot be explained simply by the recessions of 1979–80 and 1981–82. Not only did our shippers' rates begin to fall in 1977, well before the recessions, but so did average revenue per ton-mile. Moreover, in the earlier 1973–75 recession, which was as deep as the 1979–82 downturn, ICC data on average revenue per ton-mile for Class I intercity carriers showed an increase of 25 percent in real terms.

Table 6

FINANCIAL DATA ON MAJOR TRUCKING FIRMS, 1973–81

Year	Number of Firms	Return on Transportation Investment (%)	Ratio of Payroll to Revenue (%)	Revenue per Ton-Mile[a] (¢)	Industry-wide Bankruptcies
1973	1144	25.7	n.a.	n.a.	n.a.
1974	972	25.5	n.a.	n.a.	231
1975	803	19.5	43.4	21.5	240
1976	748	19.7	43.2	22.0	276
1977	963	22.8	41.7	21.7	193
1978	857	24.0	41.7	20.1	162
1979	721	14.5	40.2	19.7	186
1980	704	15.1	39.4	19.9	382
1981	704	11.1	38.7	19.4	610

[a] In 1982 dollars.

Sources: Bankruptcies are from Dun & Bradstreet's *Business Failure Record,* January 28, 1983, and reflect failures in the whole industry (regulated, unregulated, and local carriers). Other data are from G. Barry Kohler, *Financial Analysis of the Motor Carrier Industry,* 1978 (Bank of America and American Trucking Associations), and Patricia Lisciandro, *Financial Analysis of the Motor Carrier Industry,* 1982 (Chase Manhattan Bank and American Trucking Associations).

There is further evidence of deregulation's impact on the financial position of the trucking industry in Table 6. In the two years before 1979, the industry's return on transportation investment was over 50 percent higher than in the next three years. Yet in 1979 and 1980 trucking earnings were comparable to earnings in other sectors of the economy. Moreover, profits in 1975, a recession year, were considerably higher than in 1980, also a recession year, or even in 1981, which witnessed a modest recovery. Earlier profits reflected the protected and monopoly position of major carriers. Later profits reflected in part the industry's success in reducing its labor costs as a percent of revenue.

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Table 6 also shows that deregulation has taken a toll on trucking firms: bankruptcies increased greatly in 1980 and 1981. While part of this is undoubtedly due to the recent recessions, it should be noted that the decline in manufacturing production was equally severe in the 1973–75 recession but bankruptcies were much fewer. While the number of licensed trucking firms has increased about 60 percent, this growth cannot explain the much larger rise in bankruptcies—about 154 percent through 1981. In comparison, according to Dun and Bradstreet figures, business failures in the economy as a whole were 47 percent higher in 1981 than in 1975, a much smaller rise. No doubt, regulation had protected many inefficient carriers, which—when buffeted with the winds of competition—simply collapsed.

I argued at a 1972 Brookings Conference that deregulation would probably lower trucking rates by about 20 percent. Actually, as Table 5 shows, truckload rates fell about 25 percent from 1977 to 1982, and less-than-truckload rates about 12 percent. These declines, which certainly are in the range predicted, occurred during a period when fuel costs more than doubled for the industry. I also argued in 1978 that Teamsters were earning about 50 percent more than they would in a competitive environment. Partial decontrol has eliminated about half of that excess. (See *Deregulating Surface Freight Transportation,* 1975, and article in *Journal of Law and Economics,* October 1978.)

Part of the decline in rates, and perhaps the decline in labor costs, is due to the 1981–82 recession. The 1979–82 recessions were costly for transportation, and for trucking in particular. Total intercity ton-miles moved in the United States by all modes declined by 13.2 percent from the peak in 1979 through 1982, compared

to a decline of only 6.9 percent from peak to trough in 1974–75. For federally regulated motor carriers, however, the decline was 16.2 percent for the 1979–82 recessions, compared to 9.5 percent for the earlier one.

Representatives of the Teamsters Union claim that deregulation has led to widespread unemployment in the industry and has held down wages. In a letter to President Reagan on March 17, 1983, Roy Lee Williams, president of the Teamsters Union, asserted that "both the industry and union have been decimated over the last two years" (*Traffic World*, March 28, 1983). It certainly seems true that deregulation has stimulated growth in non-union trucking firms, which has held down labor costs. However, overall employment in the industry has not been hit any harder than in earlier recessions. This is clear from the data in Table 7. Indeed, the industry did better in the 1982 recession than in the one in 1975 (which, to repeat, was of comparable severity). Employment of truck drivers fell only 5.7 percent in 1981–82—raising their unemployment rate to 12.7 percent. Both the employment declines and the unemployment rates for almost all other blue-collar worker groups were significantly larger. In the railroad industry, however, employment fell more sharply than it did for all the other groups listed and more than it had in 1975. This probably reflects Conrail's abandonments as well as the more competitive environment under the Staggers Act.

While it is not possible to determine precisely how much of the fall in rates after 1977 was due to recession and how much to deregulation, it is obvious that recession played a role. Perhaps rates would have remained high in the absence of deregulation, but given that truckers had substantial rate freedom, a recession was bound to bring reductions. This is appropriate. In a competitive market, weakening demand will normally cause prices to fall. It is revealing that in the earlier recession, when regulation was pervasive, rates did not fall.

Effects on Service. Clearly, deregulation has reduced rates in trucking, but has it also reduced services? In the deregulation debates, the American Trucking Associations claimed that, without regulation, service quality would decline, service to small communities would be hurt, and large firms would dominate the industry.

Table 7
EMPLOYMENT CHANGES AND UNEMPLOYMENT, 1975 AND 1982 RECESSIONS

Worker Group	Employment Changes: 1975 Recession[a]	Employment Changes: 1982 Recession[b]	Unemployment Rate[c]
Trucking services	−9.4	−4.4	12.1
Truck drivers	−6.4	−5.7	12.7
Blue collar	−8.3	−11.1	15.4
Manufacturing	−8.2	−10.1	13.6
Construction	−13.9	−10.1	16.5
Railroads	−10.2	−18.6	12.5

[a] Third quarter 1974–fourth quarter 1975. [b] Third quarter 1981–fourth quarter 1982. [c] As of fourth quarter 1982.
Source: Data for the first three worker groups are from Bureau of Labor Statistics, *Household Survey;* data for the remaining groups are from BLS *Establishment Survey.* Data are not seasonally adjusted.

Table 8
QUALITY OF SERVICE AFTER MOTOR CARRIER ACT OF 1980

	Percent: Improved	Percent: Unchanged	Percent: Worse
Quality of trucks	24	68	8
Promptness of service	47	46	7
Availability of service	73	17	10
Reliability	37	52	11
Adjustment of claims	18	63	19
Need for supervision	14	69	17
Willingness to serve off-line points	34	42	24
Overall	35	51	14

Note: Sample size varied from 70 to 71.
Source: Author's survey of major shippers; data include responses from more than one division of some firms.

The latter two claims are refuted in two ICC reports, one showing that small and remote parts of the country have either benefited from deregulation or been largely unaffected (*Small Community Service Study*, 1982) and the other finding no appreciable change in the size distribution of firms (*The Effect of Regulatory Reform on the Trucking Industry*, 1981).

The results of my survey of shippers' views on service quality, presented in Table 8, indicate that service measured in terms of seven major quality dimensions has either improved or stayed the same since 1980. Only for "adjustment of claims" and "need for supervision" does the number of respondents who conclude that service has declined exceed the number who believe it has improved, and then only barely. Overall, about 35 percent say quality has improved and 51 percent think it is unchanged, while only 14 percent find it worse.

Another sign that service quality is improving is that the ICC is getting fewer complaints.

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In 1975 and 1976, it handled 340 and 390 trucker complaint cases, respectively. Thereafter, complaint cases fell to 60 in 1977 and 64 in 1978, and then to only 23 and 40 in 1980 and 1981.

Summing Up

The evidence shows that partial deregulation has had a substantial impact on the railroad and trucking industries. Rates have clearly declined and service quality has either improved or remained the same. These gains for shippers and consumers have been especially great in trucking.

Partial deregulation has also affected the operation of the two industries in different ways. In trucking, it has led to lower profitability, more bankruptcies, and even a minor erosion in market share. In the railroad industry, by contrast, firms have been able to capture new traffic and improve their earnings despite a weak economy.

The reasons for these differences are uncertain, but the fact that the trucking industry is much more competitive in structure than the railroad industry probably explains a good deal. Even before deregulation there were thousands of trucking firms, whereas the railroad industry has long consisted mainly of a handful of large firms, few of which compete directly with each other. Indeed, in a highly competitive rail market there may be at most three railroads offering similar services. Nevertheless, because most products can be moved by two or more modes of transport, railroads face considerable competition—from water carriers, pipelines, and trucks.

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Therefore, while deregulation has allowed more competition in both industries, it is a different kind of competition in each case. Railroads now have greater freedom to compete with other modes and thus, as an industry, have been able to profit. Truckers, on the other hand, have more freedom to compete with each other and consequently have seen their profit positions eroded. Back at the time of the deregulation debates, firms in the two industries were well aware of the probable differential impact—so railroads lobbied for change in their industry, and truckers fought it in theirs.

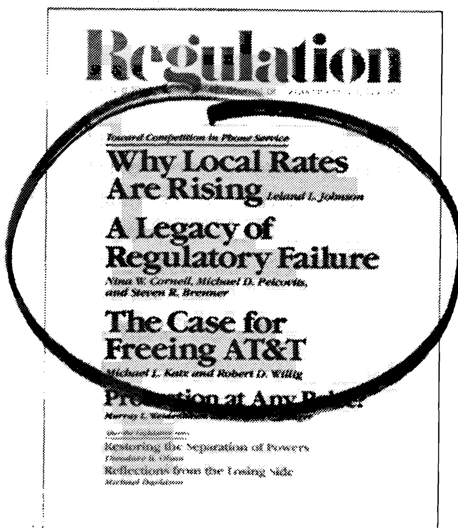
The irony is that, from at least the 1920s on, Congress intended for the ICC's regulation to help the railroads. In fact, it imposed regulation on trucking in 1935 to save the railroads from the truckers' ruinous competition. Yet the eventual result was to harm the railroads and increase the profits of the truckers.

Also apparently unintended were the benefits regulation handed to organized labor. Today workers in both industries are penalized by deregulation, but again in somewhat different ways. In trucking, wages and earnings have fallen, but the number of jobs seems to have fallen no more than in line with the recession. On the railroad side, the decline in jobs has been substantial, but the wage erosion has been small and appears to have been in line with the average recessionary decline in real wages for the whole economy. The differential impact here stems largely from the same factors discussed above. New competition within the trucking industry, mainly from nonunion firms, has weakened the Teamsters' bargaining position and forced major concessions. On the other hand, the railroads have been freed to abandon unprofitable trackage and hence cut down on unnecessary employment, but wages have been largely maintained because rail unions have not had to face competition from new nonunion firms.

In summary, deregulation has benefited consumers, shippers, and the railroad industry. It has penalized past owners of licensed trucking firms, Teamsters, and some rail workers. The new flexibility given to the transportation industry has undoubtedly strengthened the economy as a whole, and so has benefited us all. We would benefit even more if all remaining controls on both the truckers and the railroads were abolished. ■

(Continued from page 4)
would be neither equitable nor efficient to force stockholders to pay for the difference between historic book costs and economic costs. We did not make such a policy prescription. We merely noted that under a competitive market structure the stockholders would bear those losses.

What we did argue is that legislators and regulators must take account of the fact that the telephone companies' costs do not represent economic costs. Once they recognize this point they have several options, including forcing stockholders to absorb losses, financing revenue shortfalls from general tax revenues, or establishing a tax on telephone usage. We did not try to set out the relative merits of these alternatives. Rather, we argued that it is imperative to realize that the problem is *not* one of preserving a long-standing subsidy of the economic cost of local telephone service. Unless policy makers understand this point, their proposed "cures" will be worse for residential telephone subscribers than the current rate requests.



MICHAEL L. KATZ and ROBERT D. WILLIG respond:

Wohlstetter apparently opposes competition in telecommunications because he fears that it will lead to inefficient investment in facilities. We share his concern about inefficient investment, but argue that the problem does not lie with competition. In fact, vigorous and undistorted competition will make it economically unviable for firms to invest in unneeded or overly expensive capacity.

Inefficient investment arises when the competitive process is distorted by ill-conceived regulation. The cross-subsidization that Wohlstetter believes can prevent inefficient investment has in fact done the opposite. One does not have to have spent a lifetime in the telephone business to know of many instances in which large users have elected to bypass the local telephone network in order to avoid subsidizing other consumers—even though the social costs of self-supply may be higher. Uneconomic bypass is one of a number of socially wasteful investments, made in response to cross-subsidies, that would not take place under *undistorted* competition. That is why we agree with Wohlstetter on one very important point: a regulatory policy of maintaining "cosmetic competition" is a bad one.

Both the structure and the technology of the telecommunications industry have changed tremendously since the early days when, Wohlstetter tells us, competition was inappropriate. Regulators must develop policies that reflect these changed conditions. A futile wish for a return to government-protected monopoly is not a sound basis for policy. After all, even the best quarterback can fumble when he tries to make an end run around reality.

Tobin is rather more sanguine about the prospect of competition in the long-distance market. But, he asks, is the market ready to begin the move to deregulation now? Our answer is yes, precisely because some current regulations are blocking the road to undistorted competition.

That does not mean that all regulations should be wiped out at a stroke. The ones with the largest costs relative to benefits should be removed first. For example, competition to serve large business users may already be strong enough to replace regulation—for calling distances both greater than, *and less than*, 700 miles. Limited regulation is appropriate in areas or service segments where competition alone is not sufficient to promote efficient pricing. But where regulation is retained during the transition period, it is important that it interfere as little as possible with the operation of full competition in those segments where market forces are strong.

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I certify that the statements made by me above are correct and complete.

(Signed) William J. Baroody, Jr., Publisher