THE ECONOMIC BENEFITS OF TRANSPORTATION DEREGULATION

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DR. MOORE: Thank you, Marcus.

I will save my comments on Dr. Thayer's paper until later. I must say he has an interesting perspective.

We are here today to celebrate the 100th anniversary of the founding of the Interstate Commerce Commission.

To paraphrase Shakespeare, "Friends, Truckers, Regulators, lend me your ears." I have come here hoping to bury regulation, not to praise it. The good that regulation does lives on without it. The harm is often interred with its bones.

In all candor, I cannot say that I am delighted to celebrate the 100th anniversary of the ICC. I would feel much more comfortable at a wake.

The question posed to us today is transportation without regulation. Ah, it would be a thing of beauty, rare and precious.

Let me rephrase the title to be: What would the world be like if there had not been an ICC? Now, I don't know. I don't think that is knowable. However, we can get some clues of what the world would be like and what the world would be like if we followed the Administration's proposal to eliminate the remaining controls on motor carriers.

We get this evidence from theory, and we get this evidence from observing the facts in the real world. There is no other way to approach this problem. One cannot dream up ad hoc theories of how the world works. One has to look at evidence and base it on sound theories.

So what can the theory and the evidence tell us?

Railroads in 1887 were, as Dr. Thayer correctly reported, highly competitive with elements of monopoly power. Between major cities there were many railroads operating and competition was quite acute. There were areas and cities, towns, communities which were served by only one railroad, and they were subject to monopoly pricing. In effect, there was monopoly in the short haul market and competition in the long haul market.

During the period leading up to 1887, there had been a rapid increase in capacity, as Dr. Thayer pointed out. This was partly due to new industry expanding. It was partly due to large government subsidies. The federal government was subsidizing the railroad industry greatly to build and build and build. As a consequence, we did overbuild, and there was excess capacity in the railroad industry. Moreover, efficiency was improving very rapidly in the railroad industry in the nineteenth century and on into the twentieth century. As efficiency improved, we needed less capacity.

Moreover, the economy moved over time towards lighter goods, more highly manufactured goods and services, all of which meant we needed less railroad capacity. Therefore, with or without regulation, industry had to shrink.

We also know that around the turn of the century there was an invention, — a diabolical invention as far as the railroads were concerned — trucking. Trucks came and, as roads improved, they began to siphon off valuable traffic from the railroad industries. It wasn't until 1935 that federal regulation was imposed upon the trucking industry. Actually, in 1934, the American Trucking Association said in a petition to President Roosevelt that regulation would increase costs and reduce efficiency, and they were right.

I want to bring to your attention a fact that most of you are aware of, that the Motor Carrier Act in 1935 exempted agriculture. Why did it exempt agriculture? Because farmers are probably the single most influential political group in the country. They, then and now, have been able to get many favors.

Why did they see it as a favor to exempt trucking of agricultural products? They knew they would get lower rates and better service with exempt trucking.

The major supporter of bringing trucking under control was the railroads and the Interstate Commerce Commission, which saw its mandate as fostering a prosperous railroad industry. By reducing competition of truckers, it would do that.

Over the next 50 years, regulation fostered monumental amounts of inefficiency in the trucking industry — this has been well-documented — trucks being forced to go miles out of their way because of circuitous routing required by the ICC, trucks forced to return empty because they have no return authority. Rates were much inflated over this period, and service quality deteriorated.

There were several natural experiments during this period. Two court decisions in the 1950s deregulated frozen fruits and vegetables and fresh and frozen poultry. The Department of Agriculture studied what had happened when those items were deregulated. Rates went down sharply and, according to shippers, the service quality improved.

Australia is a good example of what would happen had there been no regulation of trucking. Australia has not had interstate trucking regulation since the early 1950s, and it operates fine. I spent some time in Australia, and they are very happy with unregulated trucking.

The United Kingdom deregulated trucking in the late '60s, they now have no economics regulations whatsoever of trucking, and it operates fine. There is no agitation to bring back regulation.

Regulated rates in the United States and Germany, which are the two most regulated trucking industries in the world, are significantly higher than regulated rates in the UK and the Netherlands, which are either unregulated or lightly regulated.

Since the late 1970's, we have been running an experiment in the United States. The federal government deregulated air freight in 1977. We deregulated air passengers in 1978, and trucks and railroads were partially deregulated in 1980. Actually, deregulation started about a year before those dates, because that is when the ICC or the CAB started the process.

What has been the effect? Virtually all the empirical studies have concluded that the results are excellent. Rates are down, service quality is improved. Contrary to what Dr. Thayer has been saying, efficiency is increased. Both for airlines and railroads, profits have actually gone up, and for trucks, the one area where profits have gone down, that was because there were significant monopoly profits in trucking, and they have been eliminated.

Logistics costs, which are the cost of inventories, cost of shipments, speed, and so on, rose steadily as a percentage of GNP, up to 1981, to reach a peak of 14.1 percent, and it has fallen since then to 11.3 percent.

This is largely due to the ability of firms to reduce their inventories, because they can get quicker service or more immediate service, from their suppliers. Total inventory levels in the United States have declined, and the cost of shipments have gone down. This saving has been estimated to be on the order of $56 billion.

Apparently deregulation or partial deregulation of the trucking industry has not hurt the industry, in the sense that there are as many or more

Class 1 carriers. There are also many more carriers in general. The number of total carriers has increased quite remarkably. Including Class 3 carriers, the number has gone from 14,600 in 1980 to something like 30,000.

Over the seven years of partial deregulation there has been a large group of new firms entering the trucking industry. This does not suggest that the trucking industry is a sick industry. Sick industries shrink, not expand.

In 1980, there were no firms that operated in all of the lower 48 states. Now we have about 4000 carriers that have that authority. Just think about what improvement in service that means. That means an improvement in competition, but also in service. One trucking firm now can offer to a shipper service throughout the lower 48 United States where they couldn't before this.

What has happened to rates over this period of time? Rates have declined. The truckload average revenue per ton in 1985 dollars was rising steadily up to 1980 and has fallen steadily since. The average revenue per ton shows essentially the same story, that rates have, in fact, declined. There are many, many studies that have documented these gains. As I said earlier, I know of no empirical study that has produced negative results.

A few years ago, I did a survey of shippers. Shippers reported that their rates in 1982 on trueblood shipments were down 24 percent since deregulation; LTL rates were down 14 percent.

Harbridge House did a survey of 2200 manufacturers, and found that 75 percent of them favored deregulation, 65 percent reported lower rates. They reported carriers were more willing to negotiate service and rates. The Federal Trade Commission found increased pressure on rates, increased productivity.

The ICC looked at service to small communities, found no dramatic change. Complaints had decreased significantly. Rates to and from small communities have increased less rapidly than rates to and from larger cities.

Donald Harper, University of Minnesota's School of Management, did a study of truckers and shippers in the Twin City area. He reported that the benefits to shippers were more competition, more carriers available, lower rates, more flexibility.

GAO has testified that the Motor Carrier Act had a generally favorable effect. From 1980 to October 1983, rates charged by LTL carriers fell 10 to 20 percent. There has been no adverse effect on service to small communities. Most shippers reported rates have risen only as fast as the price level or have declined.

One major effect was to reduce the value of certificates of public convenience and necessity. These certificates are like medallions on taxicabs in New York. Before deregulation they were worth on average around $500,000. After the act, when you had virtually free entry, they became almost worthless. Those certificates reflected monopoly gains, and deregulation eliminated those monopoly gains.

The survey of shippers that he conducted asked how they liked deregulation. In seven dimensions of quality, including quality of trucks, reliability, promptness, twice as many of them reported that service improves as reported that it got worse. So, rather than having quality go down with deregulation, it apparently has gone up. There has been a decline of complaints by shippers to the ICC

Some claim that deregulation has hurt safety. Dr. Thayer claimed this. The data on trucking is quite poor, and one has to take that into account. Different studies come up with different results.

The best data is the FARS data — that is, the Fatal Accident Reporting System data. The problem is we don't know how many miles trucks traveled. We have some data, but I must admit it is not good.

The fatality rate, using FARS data, since 1980 has come way down. That is hardly consistent with the idea that safety has been made worse by deregulation. Fatality Rates were going up prior to deregulation and have fallen very sharply since then. Train accidents, which are better reported, per million train-miles have fallen very sharply.

So the statistics, for what they are worth — and I confess they are not the greatest in the world — suggest that safety has, if anything, become better.

There are other statistics that show an increase in accidents. In 1982, there was legislation passed that permitted double trailers on the highway. Double trailers are inherently more dangerous and are going to cause more accidents. If there has been an increase in accidents, which is unclear, how much is due to deregulation and how much is due to the 1982 legislation?

Turning to the railroad industry, in the 1970's railroads were on the verge of bankruptcy and nationalization. In fact, Conrail had been nationalized. Thank God, we are just about to denationalize it.

Railroads, however, due to the Staggers Act, are now prospering, but shippers also gained. Rates are down.

The study of shippers referred to above indicated that rates were down 7 percent in real terms from prederegulation. According to BLS data, since deregulation rates have moved up just with inflation. Prior to deregulation rates were moving up faster than inflation. But the BLS data does not take into account discounts and contract rates, which have become much more prominent since deregulation. So the actual transaction rates must have gone down. Average revenue per ton that the railroads have reported since 1980 has dropped 4 percent, while in the previous five years it went up significantly.

Notwithstanding the decline in rates, profits are up. 1984 was the most profitable year in the railroads' history, with the railroads earning over $2.5 billion. Their return on net investment in the five years from 1980 to 1984 was over twice as high as the previous five years, even though 1981-82 was a recession year, the worst in the postwar period.

Costs have fallen faster than revenues. Operating expenses have declined some 26 percent from 1980 to 1985, while traffic volume has remained roughly constant. This is not consistent with the view that deregulation and competition pushes up costs and makes things more inefficient.

Railroads are operating more efficiently, largely because of their new ability to price their services flexibly. Prior to deregulation, railroads had to treat all their customers identically. They couldn't distinguish between customers within classes even though their costs were quite different. Now, they can do that.

Railroads have freedom to contract. They can negotiate both service and rates with individual shippers, and restrictions on intermodal transportation have been reduced, particularly with motor carriers. These changes have led to large efficiencies.

The remaining regulations — there's lots of remaining regulations of railroads — are costly. Regulations of car-hire rates, for example, have led to excess freight cars. Until the recent tax reform act, it was very profitable tax shelters to invest in freight cars. Even today, empty or full, railcars make money because of the high car-hire rates.

Actually, the high car-hire rates guarantee that an excess of freight cars and, at the same time, guarantee that they are not going to be where they are needed most. Both surpluses and shortages result.

In 1981 it was estimated that there was a surplus of some 80,000 cars. If there had been no transportation regulation — the question we were asked to answer — we would not have those surplus cars today. We would have a more integrated transportation system. Without regulation and Congressional interference, labor contracts would be more flexible and less costly. Some sale of short lines to small railroads would probably not have taken place. Railroads could have continued to operate those themselves.

For trucking, the economy still suffers from regulation. Intrastate regulation still exists which imposes significant costs. For example, it costs over 30 percent more to ship a truckload of blue jeans from El Paso to Dallas than from Taiwan to Dallas.

At the ICC over one million tariffs are filed every year. No one looks at those tariffs. It is just a waste.

The Commission is still in the business of granting authority to enter the industry. The trucking industry operates well without regulation in many parts of the world, including parts of the United States. Therefore, the United States could have a trucking industry without regulation. It would be better.

If the government had never regulated transportation, United States income and GNP would be higher and prices would be lower. We would all be living better, especially the poor, who are most adversely affected by higher retail prices.

Thank you.