

DEBATE ON THE MERITS OF TRANSPORTATION REGULATION

DR. THAYER AND DR. MOORE

MR. ALEXIS: Our plan is to give Dr. Thayer five minutes to respond to Dr. Moore and then to give Dr. Moore five minutes in rebuttal and then to open it up for discussion.

DR. THAYER: Just one or two. My experience has been that the word "empirical" is greatly misused in this business, and it is often used to compare real data against hypothetical data. Hypothetical data are not empirical data, and trends don't mean very much unless you are specifying that the exact mix of freight being moved is the same and that nothing has changed in the industry overall.

Now, I had thought by this time — but I have heard it all day today — I had thought by this time that it was understandable to people in Washington that more trucks come into Washington with cargo than go out or that more cargo comes in than goes out because this is not a big industrial area, and so I had thought that this business of empty backhaul might have been laid to rest years ago.

But I notice that Director Miller was making the same speech he made with Senator Kennedy on television eight years ago and saying that there were piles of cargo, hypothetically, sitting around Washington that couldn't move because people didn't have backhaul authority. Freight doesn't distribute itself evenly.

Over-capacity in the case of the rail industry has been blamed a couple of times today on government intervention and subsidy. The over-capacity in the world today, which is widely recognized on the business pages and in the journals across the world but is not recognized by economic analysts and for the most part by editorial writers, is not confined to

industries on government subsidies and never has been. It is simply a byproduct of competition.

I am glad Mr. Moore made the case that also in 1935 the trucking industry did not make a good case for regulation. It is one of the myths of history that the industries always make the case for regulation. They don't.

One other thing, and only one, I didn't mean to imply that the gross inefficiencies in the airline business have driven up the costs. You can drive down the costs by turning to cheap labor. You can drive down the costs by cutting corners on maintenance and hope that you don't get caught by a lot of people being killed. You really have to understand the environment that causes people to cheat.

I do get a little angry, because I think we ought to be beyond saying that everything is fine until we have thousands of people killed, and that until that happens, we won't look at any other evidence.

But I don't mean to say that airlines have not cut their per mile costs. They have, but they are doing it in a grossly inefficient operation and they are doing it, of course, in one of the typical ways, which is breaking the backs of labor.

That is easy to do if you keep unemployment high enough, and that is our current policy. Our current policy, liberal and conservative, is to maintain high unemployment so that we keep the wage rates down.

Thank you.

MR. ALEXIS: Tom?

DR. MOORE: Thank you.

Dr. Thayer claims that competition produces inefficiency and excess capacity. He will discover that after deregulation the load factor for airlines increased and has been steadily higher than it has been at any time prior to deregulation. This suggests that the airlines are doing better. They have less excess capacity now than before.

Moreover, airlines now are putting more seats into the planes. If you added the additional seats per plane, capacity utilization would go up even more. Airlines are becoming considerably more efficient. This increase in capacity utilization explains fares while making more money.

So, competition and deregulation do not lead to excess capacity. Dr. Thayer shouldn't just assert that. There should be some evidence. These numbers are not hypothetical; they are real numbers.

DR. THAYER: No, they are not.

DR. MOORE: Now, Dr. Thayer talks about competition reducing ethics, producing cheating, fraud, embezzlement, et cetera.

I always thought that those human failings were widespread and had

very little to do with competition. Russia has no competition, and I believe they are constantly arresting people for some of those exact failings.

Third-world countries are rampant with economies which have choked competition, yet they are rampant with cheating, fraud, and embezzlement.

So, I find the correlation between the two, ethics and competition, runs the other way. People in competitive industries are forced to be more ethical, because, if they are not more ethical, they will lose their customers.

That doesn't mean there won't be people that misbehave. There are always going to be people that steal, rob, murder. We can't eliminate crime. But I suggest that competition reduces unethical behavior.

Dr. Thayer referred to the Great Depression as caused by excess competition. That is an interesting and almost novel view of the world. Most observers do not blame it on excess competition. In fact, competition was reduced in the United States just prior to the Great Depression by the Smoot-Hawley tariff, which eliminated the competition from imports. One could actually argue that the Great Depression was caused by a reduction in competition, not an increase.

DR. THAYER: I would remind you that I was quoting Hoover and Roosevelt, not myself.

DR. MOORE: Finally, I want to point out that there is no competition in the European airline market. Europeans have divided up their market in such a way that each country certifies one airline to fly between the two countries. Air France flies from Paris to Italy, and Alitalia goes back the other way. They share the market in a capacity allocation which I presume, from what Dr. Thayer says, is what he would like.

Their fares are about 20 percent higher than in the United States. Such capacity allocation may benefit their airlines, but it certainly doesn't benefit the customer, the client. In fact, there is considerable pressure in Europe now to imitate the United States and deregulate their airlines. They have looked at our deregulation, and they have found it is a great success, and they would like to follow us.

I hardly would think we should follow them and Dr. Thayer's advice.
Thank you.

MR. ALEXIS: We will now entertain some questions — or even very short speeches — if you are so moved.

Anyone?

VOICE: I move that we adjourn.

MR. ALEXIS: Okay, is there any other comment?

MR. ALEXIS: The motion has been made and seconded — made

and duly seconded. I can't stop acting like a chairman. Are there any nays?

You are adjourned. Thank you, and thank you for coming.

MR. CLEARY: I want to again thank the panel and thank all of you for coming. It has been an enjoyable day, very educational.

MR. ALEXIS: Thank you very much, John.

MR. CLEARY: Thank you.

(Whereupon, at 5:00 p.m., the ICC Centennial Celebration was adjourned.)