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COMMISSION AUTHORIZED

FEDERAL TRADE COMMISSION
Washington, DC 20580

BUREAU OF ECONOMICS

February 16, 1988

Mr. Victor Weisser
Executive Director
Public Utilities Commission of
the State of California
505 Van Ness Avenue
San Francisco, CA 94102

Dear Mr. Weisser:

The staff of the Federal Trade Commission submits the following comments¹ in response to your agency's request for comments on the issue of regulation of the State of California's for-hire trucking industry. The attached analysis of California Senate Bill 727 by Commission staff, previously sent to Senator Rebecca Morgan, discusses a number of benefits of trucking deregulation. Based on the available evidence on trucking deregulation at both the federal and state levels, we concluded that "[T]he evidence is clear and convincing: deregulation lowers trucking rates. California's own experience indicates that significant consumer benefits, in the form of lower shipping prices, can be expected from the deregulation of contract motor freight carrier rates." We supplement that analysis with comments focusing on an additional issue raised in the Notice of En Banc Hearing on which we have expertise--the effect of deregulation upon service to the public in general and to small communities in particular.

¹These comments represent the views of the Bureau of Economics, Competition, and Consumer Protection of the Federal Trade Commission, and do not necessarily represent the views of the Commission itself or any individual Commissioner. The Commission has, however, voted to authorize the staff to submit these comments to you.

The Federal Trade Commission has a legal mandate to preserve competition and protect consumers from deceptive and unfair business practices.² As part of this mandate, the Commission staff has studied the deregulation of trucking and has advocated increased reliance on market forces at both the federal³ and state level.⁴ Based upon our extensive experience in studying trucking regulation and deregulation as well as our experience with competition policy issues in general, we believe that consumers have benefited from trucking deregulation at the federal level and in those states where it has been tried. In particular, previous efforts to deregulate the trucking industry in California have benefited California consumers and made the state's industries more competitive.⁵

² See 15 U.S.C. §§ 41 *et seq.*

³ See comments of the staff of the Federal Trade Commission on Pricing Practices of Motor Common Carriers of Property since the Motor Carrier Act of 1980, Ex Parte No. MC-166, before the Interstate Commerce Commission (January 19, 1983); Supplementary comments of the Bureau of Competition, Consumer Protection and Economics, Federal Trade Commission on the Exemption of Motor Contract Carriers from Tariff Filing Requirements, Ex Parte No. MC-165, before the Interstate Commerce Commission (1983); D. Breen, Bureau of Economics of the Federal Trade Commission, *Regulatory Reform and the Trucking Industry: An Evaluation of the Motor Carrier Act of 1980*, submitted to Motor Carrier Ratemaking Study Commission (March 1982).

⁴ See comments of the Federal Trade Commission staff to the Legislative Audit Council of the State of South Carolina on possible restrictive or anticompetitive practices in South Carolina's Public Service Commission statutes (September 29, 1987); Statement of the Staff of the Federal Trade Commission on Economic Deregulation of Trucking to House and Senate Transportation Committees, Washington State Legislature (March 7, 1985).

⁵ See previous FTC submission concerning California Senate Bill 727 to Senator Rebecca Morgan, December 31, 1987.

I. SERVICE HAS NOT SUFFERED AS THE RESULT OF DEREGULATION

Studies of the effect of deregulation do not find a systematic deterioration in service to small communities. A series of surveys carried out by the U.S. Department of Transportation from 1980 to 1985 consistently found that the vast majority of shippers in rural areas reported either no change or an improvement in the quality of their service since the Motor Carrier Act of 1980 partially deregulated interstate trucking.⁶ These findings are consistent with those of a 1982 Interstate Commerce Commission study, which found that shippers in small communities now enjoy lower prices, less damage to shipments, and often more service options than before deregulation; the study concluded:

These results can lead to only one conclusion. The Motor Carrier Act of 1980 has not harmed shippers in small and isolated communities. In fact, evidence suggests that small communities have actually benefited from this legislation.⁷

This conclusion is confirmed by studies of deregulation at the state level. Beilock and Freeman performed a number of surveys of shippers in Florida, which deregulated intrastate trucking in 1980, and Arizona, which deregulated in 1982. They found that abandonments of service were rare while offers of new service were common for the firms in their samples. One year after deregulation in Florida, 59 percent of small shippers

⁶U.S. Department of Transportation, *Third Follow-Up Study of Shipper-Receiver Mode Choice in Selected Rural Communities, 1982-3*, 1986; U.S. Department of Transportation, *Fourth Follow-Up Study of Shipper-Receiver Mode Choice in Selected Rural Communities, 1984-5*, 1986.

⁷Interstate Commerce Commission, *Small Community Service Study*, 1982.

preferred deregulation to regulation, while 29 percent had no preference.⁸ Of shippers in small communities, 65 percent preferred deregulation, with 30 percent expressing no preference.⁹ These findings were confirmed in later surveys. Beilock and Freeman conclude, "If anything, small rural shippers appear to be more bullish about deregulation than their larger, urban counterparts."¹⁰

In summary, there is no reason to believe that deregulation of intrastate trucking in California would lead to any general deterioration of service to small communities. To the contrary, evidence indicates that deregulation would bring shippers in small communities lower prices, better service and a wider choice of options.

II. CONCLUSION

The evidence is clear that trucking deregulation has been of great benefit to consumers wherever it has been tried. Consumers benefit from lower rates with no decline in service. We commend the past efforts of the California Public Utilities Commission in this area, as well as your continued

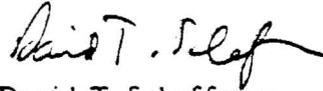
⁸R. Beilock and J. Freeman, "Motor Carrier Deregulation in Florida," 14 *Growth and Change* 31-41, 1983.

⁹*Id.*

¹⁰R. Beilock and J. Freeman, "Deregulated Motor Carrier Service to Small Communities," *Transportation Journal*, Summer, 1984. See also Beilock and Freeman, *The Impact of Motor Carrier Deregulation on Freight Rates in Arizona and Florida*. Final Report, U.S. Department of Transportation, April 30, 1985; S. Bolton, R. Conn and J. Smith, Jr., "Florida Motor Carrier Deregulation: The Immediate Effect of Sudden Deregulation from the Perspective of Shippers/Receivers in Small Communities," in *Conference on Regulatory Reform in Surface Transportation, Preprint Papers*. U.S. Department of Transportation, March, 1983.

interest in this subject. We appreciate this opportunity to make our views known, and we offer our assistance in the future.

Sincerely,



David T. Scheffman
Director
Bureau of Economics