

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

COMMISSION AUTHORIZED

In the Matter of the)
Regulation of General Freight)
Transportation by Truck.)
_____)

I.88-08-046

TESTIMONY OF DOCTOR JAMES A. LANGENFELD
OF THE FEDERAL TRADE COMMISSION

Filed by:

The Staff of the Federal Trade
Commission
San Francisco Regional Office

By:

Ronald W. Phelon
Economist

October 27, 1988

I.88-08-046

Comes now the Staff of the Federal Trade Commission and respectfully submits the qualifications and testimony of Doctor James A. Langenfeld in Order Instituting Investigation I.-88-08-046.

I

The qualifications of Dr. Langenfeld are attached as EXHIBIT A. The testimony to be given by Dr. Langenfeld is attached as EXHIBIT B. A copy of a Bureau of Economics Staff Report, Deregulation in the Trucking Industry, dated May 1988, by Diane W. Owen, is attached as EXHIBIT C. Dr. Langenfeld will submit this study as a part of his testimony.

II

Questions regarding our submission, or any other related matter, should be addressed to:

Ronald W. Phelon
Federal Trade Commission
901 Market Street, Suite 570
San Francisco, CA 94103

DATED: October 27, 1988

Respectfully submitted,


Ronald W. Phelon
Economist

I.88-08-046

CERTIFICATE OF SERVICE

I certify that I have by mail this day served true copies of the qualifications and testimony of Doctor James Langenfeld, a true copy of the Bureau of Economics Staff Report titled Deregulation in the Trucking Industry, dated May 1988, by Diane W. Owen, and a true copy of the original attached statement by the Staff of the Federal Trade Commission on all parties of record in this proceeding or their attorneys of record.

Dated October 27, 1988, at San Francisco, California.

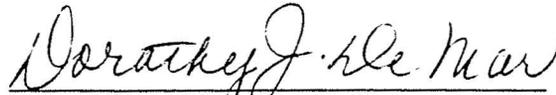

Dorothy J. DeMar

EXHIBIT A

QUALIFICATIONS

OF

DR. JAMES A. LANGENFELD

Dr. Langenfeld is Deputy Director for Antitrust in the Bureau of Economics at the Federal Trade Commission.¹ Since 1979 he has held a variety of positions at the Federal Trade Commission including Deputy Director for Economic Policy Analysis, Economic Advisor to Commissioner Terry Calvani, Assistant to the Director of the Federal Trade Commission's Bureau of Competition, and economist in the Bureau of Economics. Previously he served as an economist at General Motors, the Interstate Commerce Commission, and Amtrak.

In his current position, Dr. Langenfeld supervises all of the Bureau's economic analysis on antitrust matters, reviews all of the agency's antitrust enforcement actions, and recommends actions to the Federal Trade Commission. As Assistant to the Director of the Bureau of Competition he reviewed non-merger antitrust enforcement for the Director. As a staff economist, he analyzed specific antitrust cases.

Dr. Langenfeld has also analyzed and reviewed economic regulations, including those governing trucking. As Deputy Director for Economic Policy Analysis he supervised studies and Federal Trade Commission staff comments on existing and proposed

¹ The Federal Trade Commission investigates and enforces antitrust laws covering predatory behavior and destructive competition, mergers, vertical restraints, and other relevant practices covered by the Federal Trade Commission Act, The Clayton Act, and the Sherman Act.

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regulations. In particular, he supervised and reviewed the submission of comments to the California Public Utilities Commission for the hearings en banc on trucking deregulation and the Federal Trade Commission's staff report entitled, "Deregulation of the Trucking Industry." He testified before the California Public Utilities Commission's hearings en banc on trucking deregulation in March of 1988.

Dr. Langenfeld has also analyzed regulations in the transportation and other industries in his previous positions. He has written articles on antitrust and other forms of regulation, including his Ph.D thesis on regulation of the automobile industry.

Dr. Langenfeld received his Ph.D. in economics from Washington University in St. Louis and his B.A. in economics from Georgetown University.

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EXHIBIT B

TESTIMONY OF

DR. JAMES A. LANGENFELD

DEPUTY DIRECTOR FOR ANTITRUST

BUREAU OF ECONOMICS

FEDERAL TRADE COMMISSION
WASHINGTON, DC

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I. Introduction and Summary

I am Dr. James Langenfeld, Deputy Director for Antitrust, Bureau of Economics, Federal Trade Commission (FTC). On behalf of the staff of the Bureau of Economics of the FTC, I am pleased to testify on the impact of deregulation on the trucking industry.²

Our interest in this proceeding arises from the FTC's mandate to preserve competition and protect consumers from deceptive and unfair business practices.³ During recent years the Commission's staff has studied the deregulation of trucking and, where appropriate, has advocated increased reliance on market forces at both the federal⁴ and the state level.⁵ In

² These comments represent the views of the staff of the Bureau of Economics of the Federal Trade Commission. They are not necessarily the views of the Commission or any individual Commissioner. Any questions regarding this testimony should be directed to James Langenfeld, Bureau of Economics, Federal Trade Commission, Washington, DC 20580, (202) 326-3423.

³ See 15 U.S.C. Section 42 et seq.

⁴ 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 Bureaus 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); and 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 the Motor Carrier Ratemaking Study Commission (March 1982).

⁵ See Letter from David T. Scheffman, Director, Bureau of Economics, Federal Trade Commission Staff to Victor Weissor, Executive Director, Public Utilities Commission, State of California, Concerning Contract Trucking Deregulation (February 16, 1988); Letter from Janet M. Grady, Regional Director, San

(continued...)

addition, the Bureau of Economics of the FTC published a report on trucking deregulation earlier this year.⁶

Economic deregulation lowers trucking rates and promotes efficiency. Critics of deregulation allege that it leads to destructive competition, reduced service to small communities, and unsafe trucking, but there is little support for the first two of these allegations and at best mixed support for the last.

II. The Effects of Deregulation

A. Price Reductions

Rates paid by shippers have fallen on interstate shipments following the enactment of the Motor Carrier Act of 1980 (which largely deregulated trucking on the federal level) and on intrastate shipments in states that have deregulated trucking. The magnitude of the price decline directly attributable to deregulation at the federal level is difficult to determine because deregulation coincided with a general economic recession. Moreover, official rate bureau tariff schedules are not reliable indicators of prices actually paid by shippers, because carriers

⁵(...continued)
Francisco Regional Office, Federal Trade Commission Staff to Senator Rebecca Q. Morgan, Concerning Contract Trucking Regulation in California (December 31, 1987); Letter from John Mendenhall, Acting Regional Director, Cleveland Regional Office, Federal Trade Commission Staff, to The Honorable Frank Sawyer, Ohio House of Representatives, Concerning Contract Carrier Motor Freight Rates (February 16, 1988); 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); and Statement of the staff of the Federal Trade Commission on Economic Deregulation of Trucking to the House and Senate Transportation Committees, Washington State Legislature (March 7, 1987).

⁶ D. S. Owen, Deregulation in the Trucking Industry, Bureau of Economics, Federal Trade Commission, May 1988.

have competed by offering discounts of 15 percent to 40 percent off official rates.⁷ The most useful price data have been gathered in surveys of shippers about changes in the prices they pay. Moore finds that average interstate truckload (TL) rates fell about 25 percent between 1977 and 1982; average less than truckload (LTL) rates fell about 12 percent.⁸ Moore states that LTL rates dropped less than TL rates as a percentage of their regulated levels because more truckers entered the truckload part of the business. These declines occurred despite the more than doubling of fuel prices over the same period. Prices have remained low after the initial adjustment to deregulation as independent rate filings and rate discounting have become standard practice.⁹ While prices have been lowered, shippers overwhelmingly indicate that service quality has improved or remained constant.¹⁰

Price declines have also been documented in states with deregulation of intrastate general-freight trucking. Beilock and Freeman conducted a series of surveys of Florida and Arizona

⁷ Interstate Commerce Commission, Office of Transportation Analysis, Highlights of Activity in the Property Motor Carrier Industry, Staff Report No. 10, March 1986.

⁸ T. G. Moore, "Rail and Truck Reform -- The Record So Far," Regulation, November/December 1983, 33-41, and Moore, "Rail and Trucking Deregulation," in L. W. Weiss and M. W. Klass (eds.), Regulatory Reform: What Actually Happened, Boston: Little, Brown, 1986. We note that a recent study using a more limited data set found no significant change in trucking rates at the federal level due to deregulation. See K. D. Boyer, "The Costs of Price Regulation: Lessons from Railroad Deregulation," Rand Journal of Economics, Autumn 1987, 18:3, 408-416.

⁹ Standard & Poor's, Railroads and Trucking: Basic Analysis, Standard & Poor's Industry Surveys (April 2, 1987).

¹⁰ Moore (1983, 1986) and J. S. Ying, "Implications of Regulatory Reform for Productivity and Technical Change in the Trucking Industry: An Econometric Cost Analysis of the Effects of the Motor Carrier Act of 1980," Mimeo, University of California, Berkeley, October 1986.

following deregulation and found that approximately 60 percent of shippers reported declines in the prices paid to carriers since deregulation and another 20 percent reported no change.¹¹ Again, most shippers reported that service quality did not suffer. Beilock and Freeman's conclusion was reaffirmed by Blair, et al., who estimated that the deregulation of intrastate trucking in Florida led to a 15 percent average reduction in motor carrier rates between 1980 and 1982.¹²

Similar documented declines in intrastate rates are reported after deregulatory moves in Wisconsin and Oregon.¹³ In California the declines have been reported for those segments of the market which have been deregulated. California fresh fruit and vegetable (FF&V) shipments were essentially deregulated after July 1983, when minimum rate tariffs were cancelled and not replaced with transition tariffs. A 1986 survey of FF&V shippers and carriers found that up to 70 percent of truckload shippers reported decreased real rates (adjusted for inflation) after

¹¹ R. Beilock, and J. Freeman, "Motor Carrier Deregulation in Florida," Growth and Change, April 1983, 14:2, 31-41; Beilock and Freeman, "Florida Motor Carrier Deregulation: Perspectives of Urban and Rural Shippers/Receivers," American Journal of Agricultural Economics, February 1984, 66:1, 91-98; 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; and Freeman and Beilock, The Effects of Transportation Deregulation on Motor Carrier Service in Florida and Arizona, Final Report, U.S. Department of Transportation, May 8, 1984.

¹² R. D. Blair, D. L. Kaserman, and J. T. McClave, "Motor Carrier Deregulation: The Florida Experiment," Review of Economics and Statistics, February 1986, 68:1, 159-64.

¹³ D. W. Baker, "Does the Public Benefit from Deregulation?" Traffic World, February 9, 1987, 83-9, and Office of the Commissioner of Transportation, State of Wisconsin, Deregulation of Wisconsin Motor Carriers, July 1983.

deregulation.¹⁴ Up to 93 percent of truckload carriers reported decreased real rates. Moreover, 21 percent of the FF&V shippers reported that overall service had improved, while less than half of that percentage reported that service had declined.¹⁵

A recent study estimates savings of over \$300 million would result from trucking deregulation in Indiana.¹⁶ Researchers also find that Texas' tight regulation of intrastate rates often forces shippers to pay hundreds of dollars more for regulated intrastate hauls than for longer, deregulated interstate hauls.¹⁷ In short, trucking deregulation at the state level is apparently as effective overall as federal deregulation in reducing prices paid by shippers.

B. Efficiency Gains

Deregulation has allowed the trucking industry to use resources more efficiently. It has led to cost savings in the trucking industry through reduced hauling of empty trucks and allowed better network design and traffic flows. In addition, it has reduced logistics costs for shippers. For example, shippers now have the opportunity to choose the particular price/quality

¹⁴ N.G. Frey, R.H. Krolick, and J.L. Tontz, "The Impact of Motor Carrier Deregulation: California Intrastate Agricultural Products," Logistics and Transportation Review, September 1986, 22:3, 259-76.

¹⁵ Frey, Krolick, and Tontz, at 268.

¹⁶ Indiana Legislative Services Agency, Office of Fiscal Review, "Motor Carrier Regulation in Indiana, Sunset Audit, Motor Carrier Division of the Indiana Utility Regulatory Commission," (July 1987).

¹⁷ B. L. Weinstein, and H. T. Gross. "Transportation and Economic Development: The Case for Reform of Trucking Regulation in Texas," Center for Enterprising, Southern Methodist University (February 1987).

of service combination that best suits their needs.¹⁸

Lower prices and more efficient service since deregulation have dramatically reduced logistics costs; that is, the costs of moving and storing raw materials and of transporting finished products. According to Delaney, estimates of annual savings on all forms of transportation and logistics expenditures nationwide between 1980 and 1986, including reduced transport prices and shipper and manufacturer inventory savings, range from \$56 billion to \$90 billion.¹⁹ If these figures are correct, U.S. logistics costs dropped from almost 15 percent of GNP in 1981 to approximately 11 percent of GNP in 1986, and the ratio of logistics expenditures to sales revenues of a sample of manufacturers and retailers decreased by over 20 percent. Of course, factors other than trucking deregulation have contributed to these savings; airline and rail deregulation in the late seventies and early eighties have also increased efficiency in those transport modes. In addition, Delaney did not control for macroeconomic changes such as interest rate movements that could also have affected inventory levels during the relevant period. Beier and Stone²⁰ have adjusted Delaney's calculations to

¹⁸ See N. L. Rose, "An Economic Assessment of Surface Freight Transportation Deregulation," Working Paper 1971-88, Sloan School of Management, Massachusetts Institute of Technology, 1988, at 20.

¹⁹ R. V. Delaney, "The Disunited States: A Country in Search of an Efficient Transportation Policy," Cato Institute Policy Analysis No. 84, March 10, 1987, cited in Delaney, "Managerial and Financial Challenges," Transportation Quarterly January 1986, 36. Also see ICC (1986).

²⁰ F. J. Beier and G. B. Stone, "Review of the Delaney-Evans Debate," Cambridge, Massachusetts: U.S. Department of Transportation, Transportation Systems Center, January 1988. Beier and Stone were responding to criticisms of Delaney in Michael K. Evans, "The Macroeconomic Implications of Trucking Deregulation," The Coalition for Sound General Freight Regulation, 1987.

compensate for some of these problems, and find the benefits to be between \$80 and \$90 billion per year. Trucking is the dominant mode of transport for manufactured goods, and trucking deregulation can claim credit for a substantial share of the recent reductions in logistics costs estimated by Delaney and by Beier and Stone.²¹

III. Arguments Against Deregulation

Opponents of trucking deregulation have made several predictions about the effects of partial deregulation. They have claimed that: (1) "destructive competition" ultimately harmful to consumers will ensue; (2) service to small communities will deteriorate; and (3) highway safety will deteriorate. Research on the effects of deregulation at the federal and state levels offers little support for the first two claims, and mixed support at best for the third.

A. "Destructive Competition"

1. Predation

Opponents of trucking deregulation have argued that relaxed price and entry restrictions may lead to "destructive competition." This argument's central contention is that large, well-financed carriers will drive out their competitors by

²¹ For example, if we assume that the benefits are roughly proportional to the amount of traffic that trucks haul (about 70 percent, according to Transportation in America (March 1987) at 4), the benefits of trucking deregulation are between \$39 and \$63 billion per year (i.e., \$56 billion x 70 percent = \$39 billion; \$90 billion x 70 percent of ton miles = \$63 billion).

practicing "predatory pricing;" that is, they will price their services below their average variable costs. When rivals leave the market, the predators will exploit their new market power by raising prices above competitive levels, thus recouping their earlier losses and increasing their profits.

As I will discuss shortly, in general predatory pricing is highly unlikely to occur. It would be most likely to happen, however, in industries with a high degree of "sunk costs."²² Under such conditions, entry by new firms may be discouraged because after entry, these firms would be unable to shift many of their resources to more profitable alternatives if predators cut prices below cost. This lack of entry could result in perennial supracompetitive pricing of services in concentrated markets.

The trucking industry comprises two distinct segments: truckload (TL) shipments (shipments of 10,000 pounds or more) and less-than-truckload (LTL) shipments (those of less than 10,000 pounds). Truckload shipments generally go directly from shipper to receiver without intermediate handling; the only equipment needed is the truck itself. Most trucks have a variety of uses and are easily resold, suggesting that there are few sunk costs in the TL industry. The TL market is thus characterized by low capital requirements, few sunk costs, and ease of entry.

²² Sunk costs are those costs which once borne by a firm cannot be recouped should the firm exit the market. For instance, much of the investment in a steel plant is sunk because once it is undertaken, it cannot be recouped should the firm decide to withdraw from the market.

Predatory pricing is unlikely in this segment because supracompetitive profits could easily be taken away by new entrants. Economists have used TL trucking as an example of a "contestable" market, or one that would behave in a competitive fashion even if the market were highly concentrated.²³

Most opponents of deregulation have focused instead on the danger of predatory pricing in the LTL segment. LTL shipments typically travel from the shipper to one or more consolidation centers ("break-bulk facilities") before going to the receiver or to another terminal for pick-up. The LTL market is thus characterized by higher capital requirements than the TL market. Opponents of deregulation have contended that these high entry costs constitute a barrier to entry which raises the attractiveness of predation by ensuring its profitability.

Economists and jurists disagree about whether price predation can be a rational strategy for firms, but generally agree that it rarely occurs in practice. Bork, Easterbrook, McGee, and others argue that predation is unlikely because it is costly to the predator.²⁴ Rational rivals will understand that

²³ E. E. Bailey, and A. F. Friedlaender, "Market Structure and Multiproduct Industries," Journal of Economic Literature 20 (September 1982), 20, 1024-48.

²⁴ See R. H. Bork, The Antitrust Paradox, New York: Basic Books, 1978, F. H. Easterbrook, "Predatory Strategies and Counterstrategies," University of Chicago Law Review 48 1981, 48, 263-337, J. S. McGee, "Predatory Price Cutting: The Standard Oil (N.J.) Case," Journal of Law and Economics October 1958, 1, 137-69, and McGee, "Predatory Pricing Revisited," Journal of Law and Economics, October 1980, 23:2, 289-330.

any predatory price-cutting is temporary and will simply wait out the attack. Even if rivals exit, a predator usually cannot raise prices to exploit its monopoly power because barriers to entry -- such as sunk costs and differentially higher costs to entrants -- are low in most industries. Predation is therefore often viewed as an irrational strategy. However, some recent game-theoretic studies suggest that predation may be rational if the predator has significant "inside information" about its own costs and strategies.²⁵ In particular, a firm facing uninformed rivals may prey on some of these rivals in order to build a reputation as a low cost or irrational competitor, and thus deter entry into that or other markets.²⁶ Despite such theoretical possibilities, the Supreme Court noted in its 1986 Matsushita v. Zenith decision, "predatory pricing schemes are rarely tried and even more rarely successful."²⁷

²⁵ See D. M. Kreps and R. Wilson, "Reputation and Imperfect Information," Journal of Economic Theory, August 1982, 27:2, 253-79, P. Milgrom and J. Roberts, "Limit Pricing and Entry Under Incomplete Information: An Equilibrium Analysis." Econometrica, March 1982, 50:2, 443-59, and Milgrom and Roberts, "Predation, Reputation, and Entry Deterrence," Journal of Economic Theory, August 1982, 27:2, 280-312.

²⁶ In addition, predatory strategies that are not price-based, but use other instruments that raise rivals' costs, have been explored in the recent literature. Such strategies may be more rational than price predation. See S. C. Salop and D. T. Scheffman, "Raising Rivals' Costs," American Economic Review, May 1983, 73, 267-271.

²⁷ Matsushita Electric Industrial Co., Ltd. v. Zenith Radio Corporation, 106 S.Ct. 1348 (1986), p. 1357, citing P. Areeda and D. Turner, "Predatory Pricing and Related Practices Under Section 2 (continued...)"

Policy prescriptions for the LTL trucking industry need not be based solely on such general theoretical and empirical considerations, since there are studies indicating that LTL trucking is not unusually conducive to predation and that LTL carriers have not practiced predation since deregulation. Less-than-truckload trucking seems no more susceptible to predation than most other industries. A General Accounting Office (GAO) study concludes that barriers to entry in LTL trucking -- primarily sunk costs involved in providing terminals, financial capital requirements for effective entry, and impediments to entry imposed by state regulation of intrastate trucking -- are only "moderate."²⁸ In particular, the sunk costs of providing terminals may not be as great as opponents of deregulation imply. Carriers can often lease warehouses to use as terminals; by renting terminal space rather than buying it, they can reduce these sunk costs to near zero. Overall, predation seems no more likely to occur in LTL trucking than in unregulated industries.

²⁷(...continued)
of the Sherman Act," Harvard Law Review 1975, 88, Bork (1978), Easterbrook (1981), and McGee (1958, 1980). See also J. C. Miller, III and P. Pautler, "Predation: The Changing View in Economics and the Law," Journal of Law and Economics, May 1985, 28, 495-502 and G. Saloner, "Predation, Mergers, and Incomplete Information", Rand Journal of Economics, Summer 1987, 18:2, 165-186.

²⁸ General Accounting Office, Trucking Regulation: Price Competition and Market Structure in the Trucking Industry, Report to Congressional Requesters (February 1987), p. 18.

The GAO²⁹ confirms earlier results from the ICC and the Motor Carrier Ratemaking Study Commission³⁰ in finding no predatory behavior in LTL trucking. Carriers have apparently used discount pricing not to drive rivals from the market but to promote new services or to reflect the lower costs of serving high-volume or frequent shippers.

2. Other Forms of "Destructive Competition"

Some commentators have suggested a second way that an unregulated trucking industry can be viewed as "destructively competitive." Firms operate as long as they cover their variable costs. To the extent that the trucking industry is characterized by declining demand, large sunk costs, and a low ratio of variable to total costs, there may be excess capacity and pressure to cut price below average total cost (but above average variable cost). If price competition breaks out, prices may persist below the average total cost of providing services because the (assumed) sunk nature of costs makes exit difficult and because investment cannot be easily transferred to other markets or industries. As long as variable costs are relatively

²⁹ GAO, Price Competition (1987). See also L. H. Harrington, "Predatory Truck Pricing Just a Myth, Says GAO Report." Traffic Management, June 1987, 13-4.

³⁰ Motor Carrier Ratemaking Study Commission. Collective Ratemaking in the Trucking Industry. Report to the President and the Congress of the United States (June 1, 1983).

small, firms may suffer chronic losses³¹ for an extended period of time and, as a result, may try to reduce costs by skimping on service or by reducing investment needed for the safe operation of vehicles. This view, based on the experience of the 1930's, was an important factor in the impetus for establishment of federal motor carrier regulation in 1935.³²

Even if this form of competition could occur with undesirable results,³³ the conditions conducive to this sort of destructive competition do not appear to exist in today's trucking industry. Variable costs, such as labor and fuel expenses, comprise a large percentage of total costs.³⁴ Further, there appear to be very few sunk costs in this industry, except perhaps those associated with regulation. Only if licenses to operate are difficult to obtain, and if their sale is prohibited, are sunk costs likely to be important in trucking. Trucks are

³¹ Since shutting down would not eliminate the need to pay off fixed costs, firms have an incentive to operate as long as they cover variable cost and some part of fixed expenses.

³² See, for example, P. D. Locklin, Economics of Transportation, Homewood, Illinois: Richard D. Irwin, Inc. (1972).

³³ Shippers would appear to have little to gain from using unacceptably low quality carriers and driving the available sources of transportation into bankruptcy. Therefore, the only circumstances where this would be plausible is when the decreased quality had little effect on shippers, manufacturers, and the consumers of the goods shipped, but negatively affected others.

³⁴ California Public Utilities Commission, Strategic Planning Division, "California's Trucking Industry: A Review of Regulatory Policies and Objectives," February 1988, at 32.

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also highly mobile assets which may readily and easily be transferred from less profitable to more profitable markets in response to fluctuations in demand, or sold or leased to other operators. It is unlikely, therefore, that destructive competition of this kind will occur in the trucking industry. For example, Kahn states: "[D]oes trucking have the economic attributes of an industry subject to destructive competition? It would be difficult to find one less qualified . . ."35

B. Service to Smaller Communities

Defenders of trucking regulation have argued that service to small and remote communities would deteriorate under deregulation. This argument implicitly assumes that regulated carriers cross-subsidized service to small towns at rates below cost by setting big-city rates above competitive levels. In a deregulated market, the argument runs, carriers will be unable to keep rates between larger cities above cost and so will not generate sufficient revenue to maintain service to small towns at prices shippers will be willing to pay.

In fact, studies generally find that service to small communities has stayed constant or improved in areas that have experienced deregulation. These results are consistent with an ICC study which indicates that small-community trucking has never

³⁵ A. E Kahn III, The Economics of Regulation: Volume II, John Wiley and Sons (1971) at 173.

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been subsidized by rates between large cities.³⁶ Surveys carried out by the Department of Transportation (DOT) 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 partially deregulated interstate trucking.³⁷ A 1982 ICC study produced similar results, noting that shippers in small communities now enjoy lower prices, less damage to shipments, and frequently more service options than before deregulation. Surveys indicate that deregulation of trucking at the state level has also benefited small and rural shippers.³⁸

C. Safety

The third argument made against economic deregulation is that it reduces highway safety. Carriers struggling for survival in the face of stiff competition allegedly will neglect

³⁶ Interstate Commerce Commission, An Evaluation of Charges That Regulatory Reform Will Degrade Small Community Motor Carrier Service March 1980.

³⁷ U.S. Department of Transportation, Third Follow-Up Study of Shipper-Receiver Mode Choice in Selected Rural Communities, 1982-3, 1986, and U.S. Department of Transportation, Fourth Follow-Up Study of Shipper-Receiver Mode Choice in Selected Rural Communities, 1984-5, 1986.

³⁸ See Beilock and Freeman (1983, 1984, 1985) and S. E. Bolton, R. L. Conn, and J. A. 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.

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maintenance expenditures, delay the replacement of old vehicles, and overwork drivers.

Opponents of deregulation point to some statistics that support this argument. One study indicates that the average age of trucks on the road has increased from 3 years in 1979 to 5 years in 1984.³⁹ Statistics compiled by the National Safety Council and disseminated by the American Insurance Association based on a sample of trucking firms indicate that the accident frequency rate for truckers rose from 2.65 per million miles in 1983 to 2.93 in 1985.⁴⁰ An accident in this study is defined as a motor carrier incident which involves death, injury, or property damage of any amount.

Other research, however, indicates that safety has not decreased since economic deregulation. A study prepared for the Americans for Safe and Competitive Trucking using data from the Federal Highway Administration of DOT shows that the accident rate, the injury rate, and the fatality rate per vehicle mile

³⁹ F. Baker, "Safety Implications of Structural Changes Occurring in the U.S. Motor Carrier Industry," Discussion Paper Prepared for The AAA Foundation for Traffic Safety, Falls Church, VA., March 1985.

⁴⁰ See, for example, Standard & Poor's (1987); Nicholas A. Glaskowsky, Effects of Deregulation on Motor Carriers, Westport CT: Eno Foundation for Transportation, Inc., 1986; and Coalition for Sound General Freight Trucking, "Highway Safety: A Cost of Motor Carrier Deregulation," March 1987.

traveled have noticeably declined since 1980.⁴¹ This study uses DOT's definition of an accident as an incident which causes either a fatality, an injury, or at least \$2000 in property damage. The author adjusts the DOT accident figures to compensate for inflation in those accidents where property damage, but no fatalities or injuries, occurred. Without this correction, accident rates appear to show a dramatic increase deregulation, because inflation has increased the number of incidents which qualified as accidents under the DOT definition. After the correction for inflation, the DOT figures indicate that deregulation does not appear to have harmed highway safety.

It is difficult to reconcile estimates that the accident frequency rate for truckers has risen since deregulation with studies that show fewer and less severe accidents. Differences in these results can be explained in part by differences in definitions and methodology, but probably only in part. However, a recent study indicates that deregulation has had no effect on trucking safety. A joint study by the California Public Utilities Commission and the California Highway Patrol, completed after the Commission reregulated intrastate trucking, finds no link between economic deregulation and trucking safety.⁴²

⁴¹ R. Cherry, "Did Regulatory Reform Reduce Truck Safety?" Paper Prepared for Americans for Safe and Competitive Trucking, May 1987.

⁴² California Public Utilities Commission, Joint Legislative Report with California Highway Patrol, AB 2678 Report on Truck Safety, June 1987.

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Similar results were found on a national level by the Office of Technology Assessment,⁴³ and by Weinstein and Gross in Texas.⁴⁴

IV. Conclusion

Overall, interstate and intrastate trucking deregulation appears to have brought lower prices and higher quality service to shippers. There is little or no reason to believe the claims of deregulation's opponents that deregulation brings predatory pricing or the loss of service to small communities. The connection between safety and economic deregulation has not been clearly established, so it appears doubtful that economic regulation is an efficient way to improve safety. Given the existing research, we believe that eliminating or scaling back of economic regulation of intra-state trucking can result in significant benefits for California.

I appreciate this opportunity to testify before you on behalf of the staff of the Bureau of Economics of the Federal Trade Commission.

⁴³ Office of Technology Assessment, Gearing Up for Safety: Motor Carrier Safety in a Competitive Environment, Congress of the United States, September 1988.

⁴⁴ Weinstein and Gross (1987).