

STATEMENT BY
DR. E. H. RASTATTER, CHIEF,
REGULATORY POLICY DIVISION
OFFICE OF THE SECRETARY OF TRANSPORTATION
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REGARDING ECONOMIC REGULATION OF MOTOR CARRIERS OF PROPERTY
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Mr. Chairman, I appreciate the opportunity to represent the Department here today to discuss the Administration's views on economic regulation of motor carriers of property.

The Motor Carrier Act of 1980 (MCA) has now been in effect for almost three and a half years. During much of that period, the trucking industry -- like most industries -- has been burdened by weak demand for its services. Substantial decreases in truck tonnage levels have resulted in decreased profits and increased numbers of business failures, both in local and interstate trucking.

However, throughout these difficult times, the industry as a whole has continued to provide good service to shippers and receivers throughout the nation. Perhaps the most remarkable news we have to tell today is that there is no new story -- the trucking industry as a whole continues to move the freight wherever it is needed.

In many respects, the first volume of the motor carrier regulatory reform story is nearly complete. With the exception of removal of antitrust immunity for single-line ratemaking, most of the basic reforms contemplated by the MCA have been implemented. We agree with the conclusions of the Motor Carrier Ratemaking Study Commission's fine report, which recommended the removal of all antitrust immunity for motor carrier collective ratemaking.

In the meantime, carriers have been adjusting to a more competitive way of life. Some among them have voluntarily sought out ways to improve operating efficiency and respond better to shipper needs; many of these carriers will prosper. Others have resisted change, and for them the period of adjustment may prove more difficult.

Shippers, too, have been confronted with a new transportation environment. No longer does the shipper play a substantially passive role in the overall distribution process: many opportunities exist to shop for various price and service options, to negotiate service packages, to consolidate shipments and otherwise seek more efficient distribution strategies, and to work closely with carriers to design transportation services that best meet the shipper's overall needs. For shippers, as for carriers, transportation planning now entails substantially more than thumbing through a well-worn rate book.

The evidence we have seen during the past three years shows that shippers are happy with the results of motor carrier reform. The most recent results of a DOT sponsored multi-year survey of truck service to small communities are essentially the same as those of previous years: rural and isolated shippers continue to receive good service, with more shippers noting service improvements than deteriorations. While some shippers receive less frequent service, almost all shippers note that more carriers are competing for their business than before the MCA.

Moreover, in Florida -- which totally deregulated its intrastate trucking industry in 1980 -- shippers seem to be similarly satisfied with the trucking service they are receiving. A DOT sponsored study of Florida truck deregulation found that both in 1981 and 1982, the vast majority of Florida shippers surveyed approved of deregulation. Most respondents

in both years noted no change in overall service levels; of those who did report changes in service levels, three times as many reported improvements rather than deteriorations. A majority of respondents in both years perceived that deregulation had resulted in truck rates that were lower than they would have been under regulation.

While the State of South Dakota has not been included in our formal studies on truck service to small communities, we have every reason to believe that shippers in South Dakota are enjoying the same results as shippers in similarly rural areas of such States as Nevada, Oregon and Maine. We did call a number of shippers and knowledgeable individuals in the State, and the consensus was that there are no problems with truck service. Several shippers were quite enthused with the change since the MCA.

As the members of this Committee are well aware, the short-run picture is not uniformly rosy. Sharply lower motor carrier tonnage has contributed to reduced profits for most, losses for many, and bankruptcy for some. According to the most recently available data from Dun & Bradstreet, the absolute numbers of business failures for both local and intercity trucking continued to rise sharply through the first half of 1982. These two series have moved in very similar fashion since 1971. Both local trucking -- which was not substantially impacted by the Motor Carrier Act -- and intercity trucking -- which, of course, was -- exhibited much higher levels of business failures as the economy weakened. We believe this is strong evidence that the recession has been the primary cause of these failures.

In summary, while overall demand for motor carrier services has continued to be weak, shippers are still receiving good service. The long-term decline in tonnage appears to have bottomed out, and the beginning of recovery seems

to be at hand. For the many carriers that have pursued cost-reduction and efficiency-enhancing strategies during the recent hard times, better times ahead will mean robust profits and the means to invest in the future.

With respect to the future, we see two especially promising long-term trends: improving motor carrier efficiency through greater knowledge by carriers of their internal operating characteristics, and new ways of facilitating information flows among carriers and shippers.

With respect to the first trend, the industry's development of personal computer software for costing individual motor carrier shipments should help put necessary cost and pricing data within the reach of even small carriers.

With respect to the second trend, both computers and people are helping to meet the information needs of the trucking industry. In particular, we have observed the recent rapid growth of property brokers, who facilitate informational and traffic flows by matching up carriers and shippers. Brokers have long played an important role in the transportation of exempt commodities; in the past three years they have begun to be an important factor in arranging the transportation of regulated commodities as well.

The growth of property brokerage is important to the trucking industry as a whole, but particularly so for the future of less-than-truckload (LTL) transportation. Many of the activities engaged in by brokers -- such as consolidating LTL shipments into full truckloads, arranging for truckload loads to be "topped off" with LTL shipments, providing marketing services for smaller carriers, and making information about a wide variety of motor carriers easily available to shippers, including rural shippers -- help encourage the maximum possible levels of competition in the movement of LTL freight. These help assure that shippers of LTL freight will have

as many alternatives as possible, a function also fulfilled by LTL carriers, freight forwarders, and shippers' associations.

In addition, attitudes as well as institutions will help shape the future of the trucking industry. In the three years since enactment of the MCA, we have seen a gradual trend toward acceptance of reform on the part of industry executives. While certain segments of the industry -- such as contract and private carriers -- have been sympathetic to reform all along, we are beginning to see a broadening of this acceptance. A recent survey done by The Consulting Center of Marlboro, Massachusetts, found that 40 percent of the trucking executives surveyed no longer felt that antitrust immunity was necessary. In addition, the 1982 survey of Florida motor carriers undertaken for DOT showed that 47 percent of the respondents either preferred deregulation of their intrastate trucking industry or didn't care one way or the other.

Finally, we have seen no valid statistical evidence linking deregulation with the safety performance of the trucking industry. Nevertheless, Secretary Dole has made it clear that highway safety is one of her highest transportation priorities, and that motor carrier safety regulation will be given a greater degree of attention than it has received in the past. In this regard, the Department is moving rapidly to implement the recently enacted five-year program of grants to the States for increased enforcement of truck and bus safety. Under this program, endorsed by the Administration, the States could begin as early as January receiving substantial sums to improve safety enforcement through 1988.

In summary, as the Department also testified last year, we believe that motor carrier reform is working well. Through difficult times, the industry has responded to economic regulatory reform in the ways intended

by the Congress: by the creation of new carriers and the expansion of existing carriers into new markets, by the provision of a wide variety of new price and service options to shippers, and by a continuing search for more efficient operating techniques, all leading to lower rates for shippers and savings to consumers. As tonnage levels begin to improve, we believe that those carriers who have best adapted to the new, more competitive environment will begin to reap the economic rewards of their actions.

That concludes my prepared remarks, Mr. Chairman. I will now be glad to answer any questions you may have.