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U.S. DEPARTMENT OF TRANSPORTATION
BEFORE THE SUBCOMMITTEE ON SURFACE TRANSPORTATION
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UNITED STATES SENATE
REGARDING ECONOMIC REGULATION OF MOTOR CARRIERS OF PROPERTY
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Mr. Chairman and Members of the Committee, thank you for inviting me here today to discuss the Administration's views on economic regulation of motor carriers. I might add, Mr. Chairman, those of us who share your interest in trucking deregulation are very pleased that you have taken time from your busy schedule to remain actively involved in this important issue.

The Motor Carrier Act of 1980 (MCA) has now been in effect for more than five years. For much of that time, the trucking industry was burdened by weak demand for its services. However, even during difficult times, the industry as a whole continued to provide good service to shippers and receivers throughout the nation.

Overall, there is an enormous body of evidence that the MCA has had significant, positive effects on the trucking industry. While the recession of 1981-1982 caused substantial traffic declines and financial losses for much of the industry, the industry as a whole has been making the necessary adjustments to today's more competitive environment and has returned to profitability with the upturn in the overall economy.

With the freer entry permitted under deregulation, there are now substantially more trucking firms in business. The number of firms with Interstate Commerce Commission operating authority has grown -- from roughly 18,000 in 1980 to almost 31,000 in 1984.

Service Benefits

New price and service options have been introduced. Established carriers have become more efficient and innovative, for example, by restructuring routes, reducing empty backhauls, providing simplified rate structures, and offering shippers incentives to move freight more efficiently.

As impressive as the immediate benefits of deregulation have been, the long-term results may be even more significant. Overall distribution productivity is benefiting from improved information and inventory management systems, as well as from the greater transportation efficiency made possible by regulatory reform. Together, these trends are resulting in a virtual distribution revolution. One executive of a major transportation company believes that the net result has been a multi-billion dollar reduction in annual logistics expenditures in the United States.

As one step in broadening our understanding of the impact of trucking regulatory reform on the overall distribution systems of shippers and receivers, DOT recently commissioned a series of in-depth interviews with nine companies. Preliminary results from these interviews confirm what proponents of reform have argued -- that shippers are becoming more sophisticated and that the new

price and service options available allow them to obtain service that better meets their individual needs.

For example, while six of the nine shippers interviewed in this DOT study said that truck service had improved since partial deregulation, "improved service" meant different things to different shippers. However, whether better service meant quicker service, more reliable delivery schedules, or reduced loss and damage, the opportunity existed for shippers to negotiate service that met their specific needs. Although three of the nine shippers noted no improvement in truck service, two of the three nevertheless expressed a preference for deregulation, as opposed to pre-1980 regulation.

Shippers now play a far more active role in the distribution process. They have a hand in negotiating rates and a greater choice in selecting carriers. They can consolidate shipments themselves or through third parties, contract for particular services, and work with carriers to design transportation services best meeting their overall needs. Brokers and shipper associations are consolidating an increasing number of less-than-truckload shipments, "topping off" loads, and otherwise helping the trucking industry to operate efficiently.

Financial Results

The improvement in motor carrier financial results that began in 1983 continued strongly into the first half of 1984. For the twelve months ending June 30, 1984, the large motor carriers reporting to the ICC showed a gain in net operating income from

\$464 million to \$724 million. Overall net income rose from \$252 million to \$407 million and return on equity increased from 8.76 percent to 12.93 percent. However, by the fourth quarter of 1984, large carriers' profitability began to weaken. Net carrier operating income decreased during the fourth quarter by 5 percent, and net income was down a little less than one percent. At the same time, tonnage and revenues continued to increase, rising by 8.3 percent and 2.3 percent, respectively.* These figures suggest that vigorous price competition continued to exert an influence on carriers' profitability as overall economic conditions improved.

Employment

I am pleased to report that the unemployment rate in the trucking industry has come down sharply from the recession-induced high of 13 percent in 1983 to 8 percent in 1984, which is only slightly above the rate for the civilian labor force as a whole. Furthermore, it should be noted that total employment in the trucking industry is at its highest level in a decade; and the trucking unemployment rate is at its lowest level since 1980.

* It should be noted that, as regulatory reform has made it easier for all types of carriers to compete for traffic, it has become progressively more difficult to interpret the existing data bases (which represent only a limited number of large carriers). For example, a decrease in tonnage hauled by the 100 largest carriers would not necessarily mean that overall motor carrier tonnage was down. There could be a corresponding (or even greater) increase in the tonnage hauled by smaller common, contract, and private carriers.

Bankruptcies

Some have expressed concern about motor carrier bankruptcies, particularly as failures of large, well-established companies have been reported in the press. It was anticipated at the time of the passage of the MCA that weaker companies would not be able to withstand the added competition the Act encouraged. In fact, many of the companies that were unable to survive were unprofitable before the MCA and the recession made their traffic base more tenuous. Prior to the MCA, these companies might have been acquired by other carriers for their then valuable operating rights and, thus, avoided bankruptcy.

A large number of failed carriers were unionized (the Teamsters report 58 general freight carriers had failed as of February 1985) and had difficulty competing with lower cost firms; and many companies participated in discount wars, not fully aware of the costs they had to cover. Weak management and overly ambitious expansions and mergers also led to carrier downfalls. Recently, rising insurance costs have reportedly been a contributing cause of some carrier failures.

Moreover, the high degree of correlation between failures of intercity trucking companies, local carriers (who were largely unaffected by the MCA), and total U.S. business failures, strongly suggests that deregulation has not been the principal cause of motor carrier failures.

The number of ICC-regulated firms that have failed is small, compared to the number operating. According to Dun and Bradstreet and American Trucking Associations statistics, carriers that have

failed since 1980 represented less than one percent of all ICC-regulated carriers and about 3 percent of Class I and II carriers operating in 1984.

I want to point out, moreover, that well-managed union and non-union companies are thriving. And, because of the substantial increase in the total number of firms offering service, customers have not suffered as a result of the bankruptcies. As discussed below, even most rural shippers report that service remains good and the availability of carriers continues to be satisfactory.

Safety

Questions have been raised about the effect of relaxed motor carrier entry on highway safety. We have carefully monitored the trucking industry's safety record since implementation of the Motor Carrier Act of 1980, and, as we expected prior to deregulation, have found no valid statistical evidence linking the presence or absence of economic regulation with the safety performance of motor carrier operations. Truck accident rates are about one accident per million miles for unregulated (exempt) carriers as well as for common and contract carriers.

The Department, through its Bureau of Motor Carrier Safety and National Highway Traffic Safety Administration, is continuing to set and enforce federal truck safety standards and to work with the states to improve their inspection and enforcement efforts.

The Motor Carrier Safety Assistance Program (MCSAP) is now providing increased levels of funding to the states for this purpose. MCSAP, authorized by the Surface Transportation Assistance Act of 1982, is a cooperative endeavor between the

Federal Government and States to enforce uniform Federal and State safety, hazardous materials regulations, and rules applicable to commercial motor vehicles and their drivers. One of the criteria a state must meet in order to qualify for an implementation grant is that the state adopt and enforce the Federal Motor Carrier Safety Regulations (FMCSR's) or similar state rules that are compatible with the FMCSR's. The objective of the program is to reduce truck and bus involvement in collisions by minimizing the hazards associated with large commercial motor vehicles on the Nation's highways.

Fiscal year 1985 is the first full year of the MCSAP. Forty-nine states are participating in the program, 28 in implementation. Again the principal implementation activity will focus in the area of recruitment, hiring, and training of state enforcement personnel. At the completion of the fiscal year an additional 1,500 state enforcement officers are projected to be trained in uniform roadside inspection procedures and enforcement activities. This will result in an estimated 300,000 roadside inspections. In addition, state grantees will initiate the development of Management Information System to compile improved roadside inspection and enforcement data.

Highway safety remains one of the Department's highest priorities. The special Safety Task Force established by the Secretary is reviewing the Department's programs to ensure that we are acting in strict compliance with our safety responsibilities. In addition, we will continue to assess the safety record of the

motor carrier industry to assure that safety problems are quickly identified and solutions speedily implemented. We are convinced, however, that truck safety can be better maintained by providing appropriate safety regulations, enforcement, and sanctions than by maintaining an outdated economic regulatory framework that has no link with safety performance.

Insurance

We have heard numerous carrier complaints about both the lack of availability of liability insurance and significant increases in premium rates. This is not the result of deregulation. Recent news reports indicate that most of the professions and many businesses, including trucking companies, are experiencing steep premium increases and difficulty in acquiring liability insurance. The insurance industry had been charging low premium rates when it could invest its funds at high interest rates. When liability awards in other underwriting areas reached new highs and interest rates fell, the insurance industry suffered losses it is now trying to recover.

The insurance industry is generally opposed to the higher mandated levels of financial responsibility that became effective January 1, 1984. They claim that the market place was working adequately at the lower interim levels and that there is no evidence available that supports the higher levels. Recently, the BMCS requested specific loss information from the insurance industry. It received a 7-year history from one of the Nation's largest insurers, of accidents that resulted in payments or

reserves in excess of \$1 million. During a 7-year period (1978-84), the company was involved in 22 accidents involving \$1 million settlements or reserves. Fourteen of these 22 involved commercial motor vehicles subject to Federal regulation.

The insurance industry also perceives a problem with the term "environmental restoration" whereby, under section 30 of the MCA, carriers would be required to clean up spills of hazardous materials. It seems that the industry is concerned about possible court decisions involving long-term residual damage. Insurers have told BMCS personnel that the insurance industry does not know what "environmental restoration" is. Because of this perceived problem, based on the unknown, the industry is very reluctant to insure a motor carrier for \$5 million or more.

The origins of the problem are not simple, and the solutions are not simple either. The Department is aware of the problem and is studying it to see what, if anything, should be done.

DOT Research

In addition, I would also like to share with you the results of our most recent studies of the impact of regulatory reform on various segments of the trucking industry. Research concerning service to small communities and the impact of intrastate trucking deregulation demonstrates that reform continues to work well.

Small Community Service Study

DOT has been studying small community service since 1979. The most recent phase of one such study (1984-1985) reaches essentially the same conclusions as the previous post-deregulation phases (1980-1983): service quality and quantity have not

diminished for the vast majority of shippers and receivers located in small communities surveyed in this investigation. In fact, the number of competing carriers serving rural areas has increased, on balance, since the passage of the MCA.

For most shippers, little has changed since the first phase of the study in 1979-1980: there is a heavy dependence on United Parcel Service for small package shipments; considerable use of private carriage; and generally acceptable levels of freight service available from a variety of ICC-certificated carriers. Although rates have increased somewhat for the typical rural shipper, service quality and the level of competition among carriers are both higher. Improvements in service quality and competition were reported much more often than deteriorations, regardless of the remoteness of the shipper or receiver's location.

Overall, 98 percent of all respondents thought that post-deregulation truck service was as good as or better than before. Moreover, shippers and receivers in very remote areas were as satisfied with their truck service as were small community respondents in more accessible areas: 97.3 percent of the really rural shippers and receivers -- those more than 25 miles from an interstate highway -- reported that overall service quality was as good as or better than pre-deregulation service.

In general, shippers and receivers in the small communities surveyed continue to receive adequate truck service, with no respondent finding service unavailable.

Intrastate Trucking Deregulation In Florida And Arizona

A multi-year study was undertaken for the Department to survey shippers, for-hire carriers, and private carriers in Florida and Arizona, in order to examine the effects of removing all economic regulation of trucking in these two states. In 1981, faculty members from the Universities of Florida and Kentucky surveyed 673 shippers and carriers throughout Florida for their views on deregulation. In 1982 and 1984 their survey was expanded to over 1800 shippers and receivers throughout both Florida and Arizona. Although we have more years' data for Florida (which deregulated in 1980) than for Arizona (which deregulated in 1982), the overall results are remarkably similar.

Florida

The latest phase of the study shows that in 1984, as in previous years, shippers and receivers noted improvements in truck service resulting from the removal of all economic regulation of Florida's intrastate trucking in 1980. About 87 percent believed that post-deregulation service was at least as good as before, with approximately 33 percent of the respondents noting improvements in service, and only about 13 percent citing decreases. Faster service and reduced difficulty in arranging truck transportation were reported about twice as often as slower service or increased difficulties.

A majority of all shippers and receivers (55 percent) perceived that deregulation had held down truck rates. Similarly,

50 percent of the respondents reported increased truck competition, while only 5 percent noted less competition.

The generally favorable results were noted by shippers and receivers in widely varying locations, including a large number of respondents from small communities. Not surprisingly, given their perceptions of the impact of deregulation on their truck service, the vast majority of respondents preferred deregulation to regulation.

As a group, shippers, receivers and private carriers were more favorably disposed toward deregulation than were for-hire carriers. Sixty-eight percent of private carriers expressed a preference for deregulation, but only 28 percent of for-hire carriers preferred deregulation.

Arizona

After almost three years experience with intrastate trucking deregulation in Arizona, shippers and receivers were very positive about the results. The vast majority of respondents (70 percent) noted increased competition, with only 10 percent citing less competition. Similarly, 48 percent faced an increased number of service options, while only 23 percent saw fewer options. No shipper or receiver reported that motor carrier service was unavailable.

Roughly half of all respondents felt that overall service quality had improved since deregulation, compared with only 8 percent noting service deteriorations. In addition, deregulation was widely believed to have had a moderating influence on rates.

Fully half of all respondents felt that deregulation had held down rates, whereas only 10 percent believed it had resulted in higher rates.

As in Florida, it is not surprising that Arizona shippers and receivers surveyed reported satisfaction with deregulation. A large majority (72 percent) preferred deregulation, while only 5 percent expressed a desire to return to regulation.

As a group, Arizona for-hire carriers were more enthusiastic about deregulation than were their Florida counterparts. Forty-two percent expressed a preference for deregulation, while only 34 percent preferred regulation. The remaining carriers expressed no preference.

Impact Of Deregulation On Freight Rates In Arizona And Florida

The final phase of this study examined pre- and post-deregulation interstate and intrastate motor carrier rates for selected routes in Arizona and Florida. In both states, intrastate deregulation has resulted in surprisingly moderate changes in motor carrier freight rates. Moreover, rates have not become unstable and, therefore, are not difficult for users to determine.

Comparisons of corresponding interstate and intrastate rates reveal that over all routes studied, interstate rates rose at a faster pace than did intrastate rates. This result provides strong support for the belief that total deregulation would provide benefits beyond those already attained through partial deregulation. Further, the results in both states indicate that

the premium paid for small shipments has declined since deregulation. In Arizona, the penalty for service to remote areas, levied prior to deregulation, has largely disappeared.

Many have argued that removal of antitrust immunity for collective ratemaking would have little or no impact on interstate truck rates, now that the Motor Carrier Act has provided easier entry into trucking. However, the results of this study strongly suggest that removal of immunity would provide additional benefits. On all of the routes studied in Florida and Arizona, intrastate rates rose more slowly than interstate rates after state deregulation removed antitrust immunity for intrastate rates. This study's findings, coupled with the results of earlier studies which indicate that service levels have been maintained or improved, lead to the conclusion that from the point of view of the shipper or receiver, intrastate deregulation in Florida and Arizona has been a success.

Summary

Many opponents of truck deregulation argued that passage of the MCA would result in poor service to shippers, with many residents of rural areas unable to obtain service at any price. These fears have been proven groundless, as truck service has remained good -- even in remote areas -- in spite of the effects of the recent recession.

Some opponents of reform argued that, as the economy improved, the deterioration in truck service would finally appear. Let me emphasize that, according to our most recent research, this

predicted decline in the quality and availability of truck service has not occurred. Small carriers and minority carriers appear to have weathered difficult economic conditions as well as their larger rivals. Service to small and rural communities remains highly satisfactory, even in Florida and Arizona, after they removed all economic regulation from their intrastate trucking industries.

The reforms provided by the MCA comprised a good first step toward complete deregulation of the trucking industry. We believe that now is the time to consider taking the final steps necessary to complete that process. Any remaining economic regulation of the trucking industry is unneeded and undesirable, because there is ample competition within the industry as well as from other modes. Such regulation suppresses managerial initiative and innovation, and wastes valuable resources that the trucking industry could employ more usefully in improving its productivity.

That concludes my prepared statement, Mr. Chairman. I will now be glad to answer any questions that you or other Members of this Committee may have. I look forward to working with you and the other Members of this Committee toward the very important goal of additional economic deregulation of the trucking industry.