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U.S. DEPARTMENT OF TRANSPORTATION
BEFORE THE SURFACE TRANSPORTATION SUBCOMMITTEE
OF THE COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION
UNITED STATES SENATE
REGARDING ECONOMIC REGULATION OF HOUSEHOLD GOODS CARRIERS
AND MOTOR CARRIERS OF PASSENGERS
OCTOBER 21, 1985

Mr. Chairman and Members of the Committee, thank you for inviting me here today to discuss the Administration's views on the economic regulation of household goods carriers and motor carriers of passengers.

We believe that the results of the legislative reforms affecting household goods carriers and buses have been very positive. In my statement, I would like to highlight some of the results of reform in both of these segments of the motor carrier industry, beginning with household goods carriers.

HOUSEHOLD GOODS CARRIERS

For the past five years, household goods carriers have been operating in the less regulated, more competitive environment provided by the reforms of the Household Goods Transportation Act of 1980 and the Motor Carrier Act of 1980. I am pleased to report that, as the Department has testified in previous years, reform is working well in the household goods sector of the trucking industry.

The last five years have provided many challenges to household goods movers, but as a group they have responded impressively to these challenges. Few segments of transportation were as heavily regulated as these carriers were in 1979, and the 1980 reforms suddenly thrust them into a whole new competitive environment. However, during the past five years, household goods carriers have taken advantage of these reforms to provide shippers with new and improved services, as well as to offer more competitive prices. Many new services, such as binding estimates and guaranteed pickup and delivery, have proven especially popular with consumers. In addition, customer complaint levels have fallen sharply since 1980.

Even during some difficult economic times, carriers were providing better service to consumers than they were during the days of strict, old-fashioned regulation. As the economy improved, the motor carrier industry as a whole returned to profitability, with household goods carriers leading the way. In 1984, this segment of the trucking industry enjoyed its best year since 1979, earning an average return on equity of over 20 percent, compared to a slightly greater than 13 percent return on equity for motor carriers as a whole.

Household goods carrier innovation has taken many forms. Most visible has been the proliferation of price and service options for shippers. Some of these -- such as binding estimates, pickup and delivery guarantees, full value replacement cost insurance, and guaranteed satisfaction with each component of the moving service -- deal with the basics of moving. Other options have expanded the overall range of services provided by a carrier. These "extras" may include a broad range of relocation services to help customers settle in to their new environment once their personal possessions arrive.

With the passage of time, innovative operating methods are also being developed to respond to the needs of a more competitive marketplace. For example, some carriers have argued that offering binding estimates (guaranteed prices) runs the risk that a carrier may accept unprofitable business. We realize the importance of good costing procedures to all motor carriers, including household goods movers.

Recently, one major van line has come up with a very effective method for estimating shipping costs accurately. With the aid of a small portable computer equipped with an optical scanning system, an estimator can quickly survey the consumer's household goods to be moved, enter a list of all items to be moved, and produce a printed inventory that is accompanied by a total price offer for the move. All this can be accomplished during one visit to the customer, and the new system is said to produce estimates within a two-and-a-half percent margin for error (said to be far better than industry average accuracy in estimating). This sounds like a very good deal for both the van line and its customers and is the type of innovation the 1980 reforms were meant to encourage.

Perhaps the most vivid way to summarize the benefits that have resulted from regulatory reform of household goods regulation would be to consider a brief comparison of a typical household goods move in 1979 with one in 1985. In the former year, Mr. and Mrs. John Doe called a few carriers to get estimates of what it would cost to move their family possessions to their new home. They received estimates ranging from $1200 to $1700. Not realizing that all of the carriers were legally obligated to collect total charges based on the actual weight of their shipment -- and that the rate per hundredweight was actually the same for each of the carriers they had contacted -- the Doe's chose the carrier offering the $1200 estimate.

They watched their furniture be loaded into the moving van and then drove off to their new location. Mrs. Doe carefully obtained a certified check for the estimated amount of their moving costs, since cash or certified check was the required form of payment.

On Saturday morning, their van arrived at their new home. Much to the Doe family's surprise, the actual bill for their move came to $1700. The carrier informed them that they could have their furniture unloaded as soon as they provided enough cash or an additional certified check to cover 110 percent of the original estimate; payment of the balance could be deferred for up to thirty days. Although this provision of the Interstate Commerce Commission's regulations made it possible for the Doe's to get their furniture off the truck, they were nevertheless dismayed to discover that their careful comparison shopping for the best available rate had not actually saved them any money.

Let us now look at the Doe family's next move, in 1985. Mrs. Doe, once again, consults several van lines for estimates of the cost of their move. However, this time three van lines offer her binding estimates -- guaranteed prices for the move. She also decides to arrange for guaranteed pickup and delivery service and full value replacement insurance for her family's goods. Once again, the Doe family drives off to its new home.

The van again arrives on a Saturday morning. Remembering 1979, Mrs. Doe stands anxiously at the front door, wondering if the move is going to cost a lot more than she had planned. The foreman of the moving crew assures her not to worry -- the carrier takes credit cards and approved personal checks. As it turns out, there are no surprises -- the carrier accepts the Doe's check for the exact amount of the binding estimate.

While delivery has occurred on schedule, Mrs. Doe is nonetheless glad that she arranged for full value insurance: although all of their furniture arrives in perfect condition, the family's stereo components have been lost in transit. Thanks to the extra level of insurance coverage she purchased, a check for the full cost of a new stereo system will be sent to the Doe family -- not just compensation based on the depreciated value of their old stereo or on a fixed number of cents per pound of its weight. All things considered, the 1985 move was a far more satisfactory experience than the 1979 move.

In summary, Mr. Chairman, we believe that regulatory reform has worked well in the household goods moving industry. Carriers have become more innovative and efficient, and consumers are benefiting from a wide variety of new price and service options. The time has come to remove additional regulatory burdens, and household goods carriers are included in the Administration's legislative proposals to provide further economic deregulation of motor carriers of property and freight forwarders.

MOTOR CARRIERS OF PASSENGERS

In the three years since the implementation of the Bus Regulatory Reform Act of 1982 (BRRA) in November 1982, the intercity bus industry has utilized the provisions of the Act to respond to a rapidly changing market environment. The regular route (scheduled) segment of the industry has experienced significant new intermodal competition from the expanding reduced rate airlines as well as the more traditional competition of the automobile. Provisions of the Act have permitted rapid adjustments in fares and service to respond to changing demand. The entry provisions of the Act are permitting competition in areas previously served by a single carrier. They also are permitting new entrants to provide service more precisely tuned to the realities of present day demand than that traditionally provided by the older carriers now exiting some markets. The charter bus and tour segment of the industry is expanding at a rate which would have been unimaginable prior to regulatory reform. Entry into the regular route segment is also occurring at a rate far in excess of that of the period preceding the BRRA.

Entry

Between implementation of the Act and the end of 1984, over 3,500 applications to the ICC for operating authority were published in the Federal Register and, subsequently, the ICC Register. Some 554 of these involved regular route authority. In the years 1980-1982, by comparison, regular route applications averaged only 78 per year. Since implementation of the Act, Charter and Special Operations applications have averaged 1408 per year, as contrasted with an average of 457 in the 1980-1982 period.

Regular route entry to serve specialized markets has continued to be very active. As many as 168 applications to serve airports and particular recreational communities (such as Atlantic City and, to some degree, Las Vegas) have been published through December 1984. Applications continue to be published to provide service where previous carriers have withdrawn from particular routes. Where demand exists, new services tailored to the needs of the specific area are coming into being. For example, in northern Maine a new carrier operates a mini-bus over a 150 mile rural route previously operated by a national carrier. Similarly, in Texas, a new mini-bus operator has begun operating over the former route of another national carrier. This type of replacement can be found across the nation. The new entrants typically are small business entrepreneurs who are adjusting their service mix to fill a particular niche in the intercity bus network.

In addition to entry by small entrepreneurs, some major transfers of routes have taken place in recent months. Extensive route systems from California into the Pacific Northwest and in Ohio have seen the withdrawal of a national carrier and the assumption of these routes by independently owned regional affiliates of the carrier.

A national carrier has recently begun a franchising system through which it franchises its trademark to independent carriers and provides them with assistance, training, and terminal access. Although in existence for only several months, this system has seen new routes begun in Tennessee, Mississippi, and Louisiana. Another franchisee has assumed operation of a 250 mile route in the Northwest formerly operated by a national carrier.

Exit

Exit from the scheduled service segment of the intercity bus industry has been occurring for several decades. Beginning in the middle 1950's and only interrupted by a modest rise in the late 1960's, there has been a continuous decline in the demand for scheduled intercity bus service. Given the economic realities of this long term decline, it is not surprising that exit from communities, routes, and/or from the industry has been the norm.

Information on exit has been somewhat limited. Two primary sources have been data derived through the carrier portion of a joint DOT-ICC survey of terminals conducted in mid-1983 and a DOT sponsored Indiana University study of regulatory reform issued in September 1984. In the DOT-ICC survey, carriers were asked to identify those service points deleted from service or proposed for deletion since November 19, 1982. After adjustment for duplication, it was estimated that some 1300 communities had been eliminated or were proposed to be eliminated from service by September 1983.

The Indiana University report also examined the impact of changes under the BRRA upon small community service, rural communities, and the elderly. The authors found that terminations did not fall solely upon the smallest communities. It did not appear that the discontinuances had fallen disproportionately upon the elderly or the poor. It was found that the percentage of elderly residents was lowest and average median income was highest in communities that lost service in the 1982-84 period. The Indiana University study further demonstrated that the post-regulatory reform decline in service was a continuation of a trend that had begun well before 1975, the study's initial data time point. After the brief rise upon implementation of the BRRA in the number of applications and appeals to exit from those operations held in place by intrastate regulation, there was evidence of a return to a rate of decline equal to or less than pre-reform rates.

Having considered the magnitude of exit, it is important to differentiate between residual service points with minimal utility and points that were receiving bona fide service. Many points were carried on schedules for years without any traffic having been received or discharged. Often these points were only maintained through the negative incentive of the time, money, and effort necessary to attempt discontinuance under a particular state regulatory scheme. Some of these service points were scheduled time-points, while others were simple flag-stops, highway stops, or discharge-only points. The scheduled time-point is a stop that is indicated on a published timetable as having a specific time when the bus is due to arrive at the point to pick up and discharge passengers. Flag-stops are points where no specific arrival time is given or an estimated time for passing the point is provided. In the case of a flag-stop, it is necessary for the prospective passenger to signal ("flag") the bus in order to have it stop. The highway stop is a stop established on a main highway near a turnoff into a particular community. Such highway stops are used to provide a limited level of service when the demand for service does not warrant the delay of running into the community. The discharge-only point is a point where the bus will stop only if there is someone to discharge at the point.

The most striking conclusion to be derived from an examination of exit is that the decline in service experienced after regulatory reform does not appear to be a product of that reform but the continuation of a long trend. This trend does not seem to have been significantly altered by regulatory reform, with the exception of the large but apparently temporary surge in exit applications engendered by permitting carriers to appeal state denial of exit on intrastate segments of interstate routes. This permitted carriers to discontinue many points and/or routes that had experienced limited service and effectively nonexistent demand for many years.

Interstate and Intrastate Fares

The implementation of the Act has brought about a large number of independent tariff actions and appeals to the ICC to overrule state action on rate increases. The most prominent of the independent tariff actions is the filing of the national mileage tariffs. Filings have been made including time- and demand-sensitive fares available only during certain periods of the day or certain days of the week. The elimination of antitrust immunity for collective ratemaking, other than for general rate increases, has encouraged fare competition. A number of approaches to competitive pricing are being tried by various carriers. In short, the post-BRRA period is experiencing a degree of fare competition not seen prior to passage of the Act. This emergence of new fare competition strongly resembles the experience of the airline industry after the Airline Deregulation Act of 1978. New entrant airlines featured low fares as their primary means of exploiting their cost advantage over incumbent carriers. In turn, the incumbents usually responded with matching fare reductions.

An examination of the changes in a sample of interstate fares indicates that 17 percent of the interstate fares actually declined between 1980 and 1984. Declines as great as 30 percent occurred in the New York - Atlantic City, and New York - Reading markets as an apparent result of increased intramodal competition.

There does not appear to have been any massive wave of fare increases as a result of regulatory reform.

Intrastate fares have increased, on average, at approximately twice the interstate rate. However, these increases are part of the equalization process envisioned under the Act. The difference between intrastate and interstate fares (which were more than 30 percent higher than intrastate fares in 1980) is gradually decreasing. Most intrastate fares are still somewhat less than equivalent interstate fares, but the great differencial and consequent significant subsidization of intrastate traffic by interstate traffic has been greatly reduced. The average differential in a 1980/1984 sample is about 15 percent.

Financial Health

The intercity bus industry appears to be in a period of retrenchment, as companies seek to cope with declining demand and more intense competition from other modes. The intercity bus industry has recently experienced significantly increased competition from reduced-rate airlines. This competition is occurring on routes in the 100-400 mile range where, until recently, the bus industry had major pricing advantages to offset the time advantages of existing air carriers.

A few Class I companies have found new markets that have enabled them to realign and expand service. Most, however, have lost passenger miles in excess of their reductions in bus miles. The phenomena of national carriers shifting routes to independently owned affiliates and franchising are examples of these carriers' efforts to adjust to current market realities. Without the freedoms provided by the Act these necessary realignments would have been significantly more difficult, if not impossible, to achieve in a timely manner.

Insurance

The intercity bus industry is now suffering the same insurance problems as the trucking industry and, to a large extent, the entire transportation industry. The Department testified at the September oversight hearings on the Motor Carrier Act of 1980 that the problem of steep increases in insurance premiums, as well as the availability of insurance coverage, was neither unique to the trucking industry nor was it caused by deregulation. The same is true of insurance for intercity buses. It is a result of a number of factors which have hit the commercial liability insurance industry and created capacity and pricing problems for all property and casualty lines. It is a serious problem; we are aware of it; and we are exploring what, if anything, can be done about it.

Conclusion

In conclusion, the BRRA has fostered fare and service competition in an industry where neither was previously encouraged. Sufficient flexibility for entry, exit, and fare experimentation came after a decade of declining demand for regular route service. There are substantial indications that a basic restructuring of the intercity bus industry has begun in response to the changing market for such services. In the absence of the BRRA it is likely, considering the financial condition of much of the industry, that the economic burdens imposed by the old regulatory scheme would have made continued operation very difficult for many of the regular route carriers in operation today.

That concludes my prepared remarks, Mr. Chairman. I will now be glad to answer any questions that you or other Members of the Committee may have.