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U.S. DEPARTMENT OF TRANSPORTATION
BEFORE THE SURFACE TRANSPORTATION SUBCOMMITTEE
OF THE COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION
U.S. HOUSE OF REPRESENTATIVES
REGARDING ECONOMIC REGULATION OF MOTOR CARRIERS OF PROPERTY,
HOUSEHOLD GOODS CARRIERS, AND MOTOR CARRIERS OF PASSENGERS
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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 of property, household goods carriers, and motor carriers of passengers.

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

MOTOR CARRIERS OF PROPERTY

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. 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.* For the first quarter of 1985, operating revenues rose 2.3 percent, but net carrier operating income decreased almost 40 percent, while net income declined by about 49 percent. We believe this has much more to do with increasing costs than changes in traffic. For the twelve months ending March 31, 1985, the larger motor carriers showed gains of 10.3 percent in operating revenues and 5.2 percent in revenue tons hauled. Net carrier operating income decreased 8.7 percent to \$717.1 million, and net income fell 11.2 percent to \$413.2 million, due primarily to the large declines reported by a few carriers. Return on equity decreased to 12.14 percent from 14.77 percent. 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 10.6 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

* 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.

trucking industry is at its highest level in a decade; and the trucking unemployment rate is at its lowest level since 1980.

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 Federal Highway Administration 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 providing 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 and 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 was the first full year of the MCSAP. Forty-nine states are now participating in the program, 28 in implementation. Again this year, the principal implementation (as opposed to program development) activity is focusing on 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 additional roadside inspections (an increase of about 25 percent over pre-MCSAP inspection levels). In addition, state grantees will initiate the development of a 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 and bus 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, 1985. 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.

The insurance industry also perceives a problem with the term "environmental restoration" whereby, under section 30 of the MCA, carriers would be liable for the clean up of 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

the liability dimensions of "environmental restoration", because that term has no defined meaning for insurance purposes. 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, can 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, while only a few respondents (7 percent) observed that rates had gone up. 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. A large majority of respondents (70 percent) noted increased competition, with only 10 percent citing less competition. Similarly, 48 percent perceived 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 for-hire 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 rate differential for service to remote areas, which existed 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-owned 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 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.

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 into 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 BRRRA.

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 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 BRRRA 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 BRRRA 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 differential 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 problem of steep increases in insurance premiums, as well as the availability of insurance coverage, is neither unique to the trucking industry nor

is 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 BRRRA 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 BRRRA 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.