

Final

STATEMENT OF  
EDWARD H. RASTATTER  
U.S. DEPARTMENT OF TRANSPORTATION  
BEFORE THE SENATE COMMITTEE ON  
LOCAL GOVERNMENT AND URBAN DEVELOPMENT  
OF THE STATE OF MICHIGAN  
REGARDING ECONOMIC REGULATION OF MOTOR CARRIERS OF PROPERTY  
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I appreciate very much this opportunity for making known the U.S. Department of Transportation's views on motor carrier regulation. Rather than speak directly to the issue of what Michigan should decide with respect to regulation of its trucking industry, I would like to discuss the effects we have seen from regulatory reform at both the federal and state levels.

The federal Motor Carrier Act of 1980 (MCA) has now been in effect for eleven years. In both the early 1980's, when we were experiencing the worst recession since the 1930's, and the boom time of the mid-to-late 1980's, the trucking industry as a whole has continued to provide excellent service to shippers and receivers -- large and small -- throughout the nation.

Overall, there is an enormous body of evidence that the MCA has had significant, positive effects on the trucking industry. With the freer entry permitted under the MCA, there are now substantially more trucking firms available to provide interstate transportation. The number of firms with Interstate Commerce Commission operating authority has grown substantially -- from roughly 18,000 in 1980 to about 45,000 in 1991. Most of these carriers are relatively small businesses -- carriers with revenues less than \$1 million per year.

### Adequate Service to the Public

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.

Shippers, including small businesses, 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 by themselves or through third parties, including brokers and shipper associations, contract for particular services, and work with carriers to design transportation services best meeting their overall needs.

In a study entitled Small Town Blues performed by the American Trucking Associations (ATA) in 1976, it was asserted that small, rural shippers would lose service under deregulation. The ATA study examined the situation of Escanaba, Michigan in particular and concluded that -- as far as deregulated trucking service was concerned -- it would be "So long, Escanaba." In 1980 Escanaba was served by two regular route common carriers, each with its own local terminal. Listings for Escanaba in the Spring 1991 edition of the National Highway and Airway Carriers Directory indicate six carriers and two local terminals. ATA was clearly wrong about deregulation and its effects on Escanaba. How about the rest of the country?

In 1980, staff from the Department of Transportation conducted interviews in six small communities in Michigan: Cass City, Deford, Kingston, Armada, Romeo, and Escanaba. Business

people interviewed were generally satisfied with their current trucking freight transportation service. In most of the communities, however, this service was provided by United Parcel Service (UPS) and private carriers (shippers using their own trucks) which were not serving these communities because they were required to do so by regulation, but because it made good sense, business-wise. In the relatively few areas where ICC-regulated common carriers other than UPS were used more extensively, service was considered good in most cases.

These results were generally consistent with results in many other states in which DOT interviewed shippers just before the 1980 reforms. While we have not done any followup studies in Michigan since 1980, we would not expect post-reform shipper satisfaction in Michigan to be different from other areas where we have done followup studies. DOT studied small community trucking service in the six states of North Carolina, South Carolina, Georgia, New York, Pennsylvania, and Maine between 1979 and 1985. Many of the shippers and receivers surveyed were small businesses. The most recent phase of this study (1984-1985) reached essentially the same conclusions as the previous post-reform 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 these rural areas increased, on balance, since the passage of the MCA. Improvements in service quality and competition were reported ten times more often than

deteriorations, regardless of the remoteness of the shipper or receiver's location.

Overall, 98 percent of all respondents to the study thought that post-reform 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-reform service.

The inescapable conclusion is that motor carrier regulation did not provide service, the market provides service.

#### Benefits to Shippers and Consumers

In 1990, the Brookings Institution published a report entitled The Economic Effects of Surface Freight Deregulation. It estimates the effects of the trucking reforms of 1980 at over \$15 billion per year when adjusted for inflation. These benefits include cost savings to private carriers which can transport their freight with fewer empty miles, lower rates to shippers because competition has led to widely available discounts from class rates, and time savings from better, faster service.

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 changes have permitted a virtual "logistics revolution" in the way U.S. industry conducts its shipping,

merchandising, and inventory functions, enabling what we estimate to be a \$38 billion reduction in annual logistics expenditures as a result of "just-in-time" inventory and manufacturing systems, and similar innovations.

#### Labor Issues

Total employment in the trucking services industry (based on household surveys and including sole proprietors) has increased about 33 percent since 1979. While the 1980 reforms may have accelerated the pre-existing long-term decline in the number of union drivers, overall employment in the trucking services industry according to the Bureau of Labor Statistics (BLS) household survey has increased by an additional 455,000 jobs from 1979 through 1990. The BLS survey covering truck drivers shows about 2.6 million in 1990, up 19 percent since 1983. Trucking employment, including self-employed owner-operators, is now at its highest level in a decade. In fact, many carriers are reporting driver shortages, forcing them to re-evaluate their recruiting practices, compensation, and working conditions.

#### Worldwide Competitiveness

Further trucking reform could result in even more savings, primarily from lower transportation and inventory carrying costs. These additional savings could help to improve the productivity of U.S. industries and their ability to compete in both domestic and international markets. With the availability of computers, high-speed communications, and other modern transportation and logistics technology, our business perspective must be enlarged to consider global competition and the worldwide marketplace. New

methods of doing business learned from our foreign competitors, including just-in-time manufacturing and inventory management, require flexibility and reliability in our distribution system. Our distribution systems have already been enhanced through regulatory reform -- but need further improvement.

For example, because of continued regulation in the U.S., it is cheaper in some trades to ship goods from overseas than it is to ship the same goods within the U.S. Domestically produced items are transported within the U.S. an average of about eleven times during their transformation from raw material to final consumer, whereas imported products may be transported only once or twice from the port of entry. Thus, any action we can take to reduce transportation costs in domestic markets will have a significant and disproportionate effect on lowering the costs of domestic products vis-a-vis imported products, as well as U.S. products sold in overseas markets.

Moreover, similar reforms being implemented now in Europe -- not just the European Economic Community, but also the European Free Trade Association, comprising 19 member countries -- will reduce the cost of freight transportation in Europe an estimated 40 percent over the next several years. We must reform further if we are only to keep up.

#### State Regulation

The 1980 federal reforms do not necessarily apply to intrastate operations. More than forty states still regulate trucking within their borders -- including many movements which are simply continuations of interstate or foreign shipments.

Regulation in many states results in inefficiencies for carriers and higher transportation costs for everyone. Several states do not regulate trucking, including New Jersey, Delaware, Florida, Arizona, Wisconsin, Alaska, Maine, and Vermont. For three of these states we have sponsored studies of their deregulated trucking industries.

New Jersey is totally unregulated with respect to general freight and virtually all specialized commodity trucking. A 1979 Examination of the Unregulated Trucking Experience in New Jersey, by Professor Bruce Allen of the University of Pennsylvania, concluded that intrastate New Jersey trucking rates were 8.5 to 15.2 percent lower than the then fully regulated interstate rates. Virtually all (87 percent) shippers and receivers felt that intrastate service was excellent, and the status quo was favored by large shippers (91 percent) and small shippers (89 percent) alike. Surprisingly, over half (57 percent) of the carriers even preferred deregulation.

A multi-year (1981-1984) study, The Effects of Transportation Deregulation on Motor Carrier Service in Florida and Arizona, by Professors James Freeman and Richard Beilock, was undertaken to survey shippers, for-hire carriers, and private carriers in Florida and Arizona, in order to determine the effects of total intrastate truck deregulation in these two states.

About 90 percent of Florida shippers and receivers said that post-deregulation service was at least as good as before, with about 30 percent noting improvements in service, and only about 10 percent citing decreases. A majority of all shippers

and receivers (58 percent) perceived that deregulation had held down truck rates. Similarly, about 53 percent reported increased competition, while only 5 percent noted less competition. Among carriers, 72 percent of private carrier respondents expressed a preference for deregulation, but only 29 percent of for-hire carriers preferred deregulation.

The majority of Arizona respondents (76 percent) noted increased competition, with only 11 percent citing less competition. Similarly, 48 percent faced an increased number of service options, while only 23 percent saw fewer options. Half of all respondents felt that deregulation had held down rates, whereas only 10 percent believed it had resulted in higher rates. As a group, Arizona for-hire carriers were more enthusiastic about deregulation than were Florida carriers: 42 percent expressed a preference for deregulation, while only 34 percent preferred regulation.

In both Arizona and Florida, intrastate deregulation has resulted in surprisingly moderate changes in motor carrier freight rates. In both states, rates have not become unstable and, therefore, are not difficult for users to determine. Moreover, the system of commodity classification previously used in ratemaking has been maintained.

The study examined pre- and post-deregulation interstate and intrastate motor carrier rates for 12 routes in Arizona and 20 routes in Florida. Intrastate rates rose more slowly than interstate rates, probably because many interstate rates are made collectively in rate bureaus under grants of antitrust immunity,

and are not subject to the full effects of competition like the deregulated intrastate rates. Furthermore, the results in both Arizona and Florida indicate that, since deregulation, the premium paid per unit weight for small shipments has declined. In Arizona, the penalty levied prior to deregulation for service to remote areas has largely disappeared.

Finally, Professors Morash and Wagenheim, of Michigan State University, published a study of Michigan trucking regulation in the Spring 1991 edition of the Transportation Journal. They found that almost 93 percent of Michigan intrastate rates were higher than discounted interstate rates. They also estimate potential savings from Michigan deregulation at \$86.6 million per year. Viewed another way, Michigan regulation is currently imposing a hidden sales tax of that amount on Michigan consumers, but unlike a regular sales tax, the revenues do not accrue to the state treasury of Michigan.

#### Effects on Pricing and Efficiency

In the various studies we have seen or sponsored concerning the effects of motor carrier regulation, the comparison has been between unregulated carriers and carriers which are subject to entry and maximum rate regulation. For example, the New Jersey study referred to above, and other studies of exempt agricultural transportation and unregulated shippers, concluded that pre-1980 ICC-style regulation resulted in rates about 10-20 percent or more higher than unregulated rates for similar movements of freight. Another effect of this type of regulation was the development of shipper strategies to avoid regulated transportation, such as a

shift toward unregulated private carriage, and use of unregulated shippers' associations instead of regulated common carriers and freight forwarders. Use of shippers' associations saved shippers 18.5-21.5 percent, according to our 1979 study on the subject.

In the case of strict state regulation of entry and rates, there are numerous instances in which shippers have avoided the use of high-cost intrastate carriers by locating their distribution centers across the state line from their populous destination markets; for example, companies have set up distribution centers for their Texas markets in Shreveport, Louisiana, Texarkana, Arkansas, and Texahoma, Oklahoma. They can then take advantage of lower interstate rates.

Strict regulation in Michigan could bring similar flights of economic activity and their resultant loss of tax base.

#### Public 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 have found no valid statistical evidence linking safety performance with the presence or absence of economic regulation.

National truck accident data are shown in Table 1. The best source of motor carrier accident statistics is the National Highway Traffic Safety Administration's (NHTSA) Fatal Accident Reporting System (FARS). The NHTSA data are reported by the states and include all accidents that result in one or more fatalities. NHTSA breaks the data down by vehicle type. We have used the data

on combination trucks. This group is most representative of over-the-road trucking, and includes both intrastate and interstate carriers.

NHTSA data show that fatal accidents per million vehicle miles traveled (VMT) declined by about 36 percent between 1979 (the last full year before federal reforms) and 1989. Fatal accidents have been lower in every year since reform than they were in 1978-1979, the last two years before the MCA.

An in-depth investigation of a possible link between deregulation and safety was jointly conducted in 1987 by the California Public Utilities Commission (CPUC) and the California Highway Patrol (CHP). This investigation was unable to prove that economic regulation of trucking is significantly and positively linked to improved highway safety. The study concluded, moreover, that even if there were such a link, safety enforcement activities provide more potential for improvement of truck safety.

Furthermore, the study found a significant inverse relationship between accidents and truck inspections -- as CHP inspections and enforcement went up, the accident rate went down, and vice versa.

In June 1987 the Transportation Center of Northwestern University convened a conference on the safety implications of the Airline Deregulation Act of 1978 and the Motor Carrier Act of 1980, inviting some 20 participants to develop analytical papers on the subject of trucking deregulation and safety. The summary report states:

The essential conclusion regarding the motor carrier industry that was reached at the Conference was that no objective evidence had been found to support a position that economic

deregulation had caused a degradation of highway safety or the quality of freight delivery services. Since it also seemed clear that real transport rates had fallen, there was no basis for a return to economic regulation. Conference participants were strongly in support of the view that where safety difficulties were identified, they should be addressed by safety measures, not economic regulation.

The most recent in-depth investigation we have seen of a possible link between regulation and safety was conducted by the Office of Technology Assessment (OTA), an arm of the U.S. Congress. It also examined how well existing safety policies, regulations, and technologies meet the government's responsibility for ensuring safety in the motor carrier industry. The OTA concluded that, because of a lack of good pre-reform data, the effects of the 1982 recession, and other post-reform policy changes, "no clear link can be established between changes in economic regulation and motor carrier safety." It goes on to conclude that action is needed to address motor carrier safety issues comprehensively through coordination of increased attention to the human factor (training, hiring, scheduling of drivers, etc.), improved technology (antilock brakes, highway structure and design, etc.) and integrated action at all levels of government to bring about uniformity in safety-related regulation and enforcement.

It is noteworthy that not once does the OTA report advocate increasing safety through the application of economic regulation.

The Department, through the Federal Highway Administration's Office of Motor Carriers and the 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.

During 1985, the Secretary of Transportation's Safety Review Task Force reviewed the motor carrier safety program of the Federal Highway Administration. Significant increases in resources at both the federal and state levels and a redefinition of federal and state roles in assuring motor carrier safety were recommended. The Task Force also recommended some changes in the FHWA program to better identify high-risk carriers and target them for monitoring and enforcement.

To carry out the recommendations of the Task Force, the Secretary requested in DOT's FY 1991 budget submission, and the Congress approved, funding for state truck safety efforts through the Motor Carrier Safety Assistance Program (MCSAP), to an annual level of \$60 million. In addition, Congress provided an increase of 150 FHWA safety specialists, bringing the total number to about 450. MCSAP strengthens state programs by providing funding to train and employ thousands of safety inspectors. This program enables DOT to assist states in placing more state inspectors on the road to check drivers and vehicles for safety compliance.

One of the primary reasons we have been able to move forward with the new national program is because the states have accepted the responsibility for the important job of roadside inspections. In FY 1990, the federal-state MCSAP partnership resulted in approximately 1.6 million driver and vehicle inspections nationwide, with over 112,000 drivers and 542,000 unsafe vehicles

removed from service for serious violations of the safety regulations. This inspection level compares with about 36,000 conducted nationwide by FHWA in 1982.

During FY 1990, Michigan conducted over 55,000 driver-vehicle inspections funded by MCSAP, resulting in over 16,500 out-of-service vehicles and almost 2,000 out-of-service drivers. The federal share of the Michigan program was \$2,117,936 for FY 1989 and was \$1,696,346 for FY 1990.

The increased likelihood of detection, coupled with the possibility of significant penalties, helps to assure a high degree of compliance with the safety regulations.

#### Summary

In summary, there is no evidence that regulatory reform has led to a deterioration in trucking services, even in rural areas. Researchers all over the country have been unable to find any significant long-term link between economic regulation and motor carrier safety. A far more plausible linkage exists between vigorous enforcement of safety laws and regulations and the enhancement of motor carrier safety.

Since the passage of the MCA, truck service has remained excellent. Enormous public benefits of many billions of dollars annually have resulted. Service to small and rural communities remains highly satisfactory, even in Florida and Arizona, which have removed all economic regulation from their intrastate trucking industries. Importantly, safety has not deteriorated. I hope this information is helpful in your deliberations on reform of trucking regulation in the State of Michigan.

TABLE 1 - MOTOR CARRIER ACCIDENTS

NHTSA COMBINATION VEHICLES					
YEAR	VMT*	FATAL ACCIDENTS++		FATALITIES++	
		NUMBER	RATE**	NUMBER	RATE**
1976	49,680	3,260	6.56	3,948	7.95
1977	55,682	3,613	6.49	4,305	7.73
1978	62,992	4,066	6.45	4,825	7.66
1979	66,992	4,307	6.43	5,148	7.68
1980+	68,678	3,731	5.43	4,473	6.51
1981	69,134	3,863	5.59	4,594	6.65
1982	66,668	3,519	5.28	4,226	6.34
1983	69,754	3,645	5.23	4,365	6.26
1984	77,367	3,907	5.05	4,605	5.95
1985	79,600	3,892	4.89	4,655	5.85
1986	81,833	3,825	4.67	4,493	5.49
1987	86,064	3,746	4.35	4,403	5.11
1988	90,158	3,939	4.37	4,609	5.11
1989	95,567	3,909	4.09	4,370	4.57
1990	N.A.	3,771	N.A.	4,206	N.A.

\* In millions (FHWA Highway Statistics, Table VM-1).

\*\* Rate is accidents per 100 million vehicle miles traveled (VMT).

+ The Motor Carrier Act was enacted in mid-1980.

++ NHTSA, Fatal Accident Reporting System (FARS) data.

Table 2  
 COMBINATION VEHICLE FATAL ACCIDENT TRENDS  
 1976 TO 1990  
 1980 = 1.000

YEAR =====	U.S. =====	MICHIGAN =====	WISCONSIN =====	OHIO =====	INDIANA =====	ILLINOIS =====
1976	0.874	0.933	1.014	1.007	1.333	1.111
1977	0.968	1.233	1.014	1.087	1.237	1.356
1978	1.090	1.567	0.754	1.355	1.456	1.311
1979	1.154	1.478	1.203	1.536	1.509	1.259
1980	1.000	1.000	1.000	1.000	1.000	1.000
1981	1.035	1.100	1.043	1.123	1.044	1.126
1982	0.943	0.856	1.000	0.949	0.921	0.815
1983	0.977	1.067	0.710	0.957	1.140	0.778
1984	1.047	1.089	0.913	0.935	1.070	0.800
1985	1.043	1.122	1.072	1.043	1.009	0.956
1986	1.025	1.056	0.928	0.957	1.061	1.074
1987	1.004	1.122	0.986	1.145	1.158	1.074
1988	1.054	1.400	0.913	1.333	1.079	1.267
1989	1.047	1.300	1.275	0.869	1.123	1.207
1990	1.011	1.122	1.217	1.529	1.149	1.133