

**INTRASTATE MOTOR CARRIER  
REGULATION/DEREGULATION**

**By**

**Dennis R. Ming**

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**DENNIS R. MING**

**UPPER GREAT PLAINS TRANSPORTATION INSTITUTE  
NORTH DAKOTA STATE UNIVERSITY  
P. O. BOX 5074  
FARGO, NORTH DAKOTA 58105**

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## Summary and Conclusions

While substantial regulatory reform has taken place involving intrastate motor carrier operations, most reform has involved easing entry restrictions. States such as Arizona, Delaware, Florida and Maine do not regulate entry or rates of common carrier for-hire trucking operations. Other states have eased entry requirements, exempted commodities from intrastate regulation or have adopted some other form of regulatory reform.

This review of literature on intrastate motor carrier regulatory reform has revealed two basic findings. First, in states where intrastate deregulation has taken place rates have generally declined or have remained constant, and quality of service has not eroded. And second, shippers and receivers generally prefer a deregulated environment while carriers prefer a regulated environment. Based on the second finding, deregulation generally causes an income transfer from carriers to shippers and receivers. That is, rates typically exhibit downward behavior following deregulation of intrastate motor carrier operations.

Summary Table A contains a list of various studies that have been conducted concerning intrastate motor carrier deregulation in Florida. A more detailed synopsis of another Florida study and an Arizona study are contained in the body of this manuscript. In addition, studies concerning effects of intrastate regulation follow the section on deregulation. Generally, these studies indicated that intrastate regulation is costly to shippers/receivers and/or deregulation would be preferred.

SUMMARY TABLE A. STUDIES EXAMINING THE EFFECTS OF MOTOR CARRIER DEREGULATION IN FLORIDA

Author	Publication	Sample Characteristics and Methodology	Conclusions
Richard Beilock and James Freeman	"Motor Carrier Deregulation in Florida," <u>Growth and Change</u> , Vol. 14:2, 1983, pp. 30-41, and <u>The Effects of Transportation Deregulation on Motor Carrier Service in Florida and Arizona</u> , prepared for U.S. DOT, 1983.	Data sources: mail surveys of shipper/receivers and carriers located throughout the state, June 1981 and June 1982. In 1982, shipper/receivers were divided into urban and rural based on community size (over or under 10,000) and proximity to SMSA. Shipper/receiver sample size was 144 in each year, by coincidence.  Methodology: contingency analysis.	1. Overwhelming support among shipper/receivers for continued deregulation, regardless of urban or rural. 2. General consensus among urban and nonurban shipper/receivers that deregulation has improved or not harmed the quality and quantity of service-rate options. 3. Service to urban shipper/receivers seems to have improved more than for nonurban shipper/receivers. 4. Split among carriers regardless deregulation.
Roger Blair, David Kasserman, and James McClave	<u>The Economic Effects of Intrastate Trucking in Florida</u> , prepared for Florida State Attorney General's Office, 1983.	Data sources: collected rate data of 10 major carriers from three origins to seven destinations (three of which are small communities) at three postderegulation time periods.  Methodology: regression.	1. Deregulation has resulted in (or been coincident with) a 14 to 16 percent drop in rates--including rates to outlying areas. 2. There is no evidence of collusion among carriers.
Steven Bolton, Robert Conn, and Jay Smith	"Florida Motor Carrier Deregulation: The Immediate Effect of Sudden Deregulation from the Perspective of Shipper/Receivers in Small Communities," Invited Paper, U.S. DOT Conference on Regulatory Reform in Surface Transportation, March 1983.	Data sources: intensive surveys of 20 shipper/receivers in three small, isolated communities in Florida.  Methodology: results tabulated and discussed (too few observations for contingency analysis).	1. Few changes in rates or service quality. 2. Some increase in number of carriers surveying shipper/receivers. 3. Some initial confusion.
ICC, Office of Policy and Analysis	Initial Carrier and Shipper Responses to Interstate Trucking Deregulation in Florida, June 1981.	Data sources: conversation with carriers, examination of published tariffs, and statewide survey of shipper/receivers.  Methodology: contingency analysis.	1. Reduced rates and increased competition to most points including rural areas. 2. Carriers continuing to serve nonurban routes. 3. Reduction in empty mileage. 4. Few changes in service noted by shipper/receivers. Those seeing improvements outnumber those seeing declines.
Michael Putsay	"State Regulation and Motor Carrier Service to Small Communities," Invited Paper U.S. DOT Conference on Regulatory Reform in Surface Transportation 1983, pp. 414-429.	Data sources: examined the <u>National Highway and Airway Carriers and Routes Guide</u> to determine levels of motor carrier service in 50 small communities (under 2,000 population) in each of four states (Florida, Texas, Ohio and South Dakota).	Florida has the second highest average number of intrastate carriers serving each small community, suggesting that regulations are not required to ensure service to these areas.

Source: Beilock, Richard and James Freeman, "Deregulated Motor Carrier Service to Small Communities," Transportation Journal, Vol. 23:4, Summer 1984.

### Introduction

The transportation industry has experienced significant regulatory reform in recent years. Much of the deregulatory movement has been at the federal level, affecting those firms that operate on an interstate basis. Railroads, motor carriers and airlines were all deregulated in the late-1970s and early-1980s. Legislation affecting these industries focused mainly on lessening economic regulations. Removing or easing entry restrictions and increasing rate flexibility constituted major portions of these deregulatory bills.

Many states have either deregulated intrastate transportation operations or have addressed effects of continued regulation since passage of major deregulation bills on the federal level. Most intrastate regulatory attention has been directed towards the motor carrier industry. Generally, motor carriers have been subject to more intrastate regulation than the other transportation modes because of their operating characteristics. Many motor carrier firms operate on relatively short routes that fall within the confines of state lines. Thus, they are more susceptible to state administered regulations than long distance carriers such as railroads, barge companies and airlines.

### Transport Regulation

Generally, regulation of an industry will result if one or more of the following are present:

1. Market Power. Theoretically, if one or a few firms operate in an industry and are able to extract large, economic rents (charge high prices), federal and/or state governments may choose to regulate the industry in order to limit excessive profits.
2. Discrimination. Regulation is probable if those firms providing the service are able to discriminate against certain classes of users. Thus, in a deregulated environment, there must be economic incentives for firms supplying the service to continue supplying the service.

3. Instability. Inherent instability in the industry supplying the service may warrant regulation to insure the service is provided on a continuing basis.

Other factors may also promulgate regulation of an industry. However the main goal of economic regulation of an industry is to protect those using the service (consumers) or those providing the service (producers), or both. Economic regulation typically involves administering policy that affects rates, service and competition.

#### Effects of Intrastate Motor Carrier Deregulation

Many states have lessened regulation of intrastate trucking operations. These states have typically eased restrictions on new firms seeking operating authority or those wishing to expand existing authority. A few states, Arizona, Florida, Delaware, and Maine for example, do not regulate rates or entry of for-hire intrastate motor carriers. The remainder of this section contains results of studies that have been conducted concerning intrastate motor carrier regulation/deregulation.

#### Florida

Intrastate motor carrier regulation ceased in Florida on July 1, 1980 when the Florida Public Service Commission (FPSC) was sunsetted under the provisions of legislation passed in 1976. A total deregulated operating environment evolved for trucking firms when the FPSC was abolished. Thus, intrastate motor carriers are able to set their own rates, enter and exit the industry, and provide service as they see fit.

Beilock and Freeman (1) studied the effects of motor carrier deregulation in Florida. Their study, conducted in 1982, was based on mail surveys to (1) shippers/receivers (SR), (2) common and contract trucking firms (C), and (3) private carriers (PC). Results of the study indicated a

strong preference for deregulation. Fewer than half (47 percent) of C indicated a preference for regulation while only 10 percent of SR and PC preferred regulation. About 50 percent of SR and PC and 80 percent of C indicated that price and service competition had increased since the FPSC was sunsetted. Rates declined for 59 percent of SR with none indicating that rates had increased. Profits declined for 42 percent of the C and 10 percent of the PC, while they increased for 30 percent and 23 percent of the C and PC, respectively.

Beilock and Freeman concluded that small and large shippers and receivers fared about equally well since deregulation and that service to small and/or rural communities did not erode. They also concluded that household goods carriers were the exception and that most of these carriers increased rates between 1980 and 1982. Beilock and Freeman suggested that regulation may be needed where service standards such as reliability are both important to shippers and difficult to determine. In the case of household goods carriers and carriers with similar characteristics, the cost to consumers of determining actual carrier characteristics may be burdensome and warrant intrastate regulation.

Additional studies addressing intrastate motor carrier deregulation in Florida are summarized in Summary Table A on page 2.

#### Arizona

Regulation of entry and rates of for-hire intrastate motor carriers by the Arizona Corporation Commission ended on July 1, 1982. Beilock and Freeman (2) conducted pre- and post-deregulation surveys in June and November, 1982 and July, 1983 of shippers, receivers and carriers. Their findings indicated that carriers were equally divided on the deregulation issue. Rural and urban shippers/receivers appeared to have experienced some rate relief and improvements in the quality and frequency of service. Urban

shippers benefitted slightly more than nonurban shippers, but as was the case in Florida the difference was minimal.<sup>1</sup>

### Effects of Intrastate Motor Carrier Regulation

The previous section detailed state's experiences with intrastate regulatory reform. This section contains results of various studies that analyzed the effects of intrastate regulation. The states that are addressed in this section, therefore, have not deregulated motor carrier operation.

#### Texas

Schuster (3) analyzed the effects of intrastate motor carrier regulation on the agricultural industry in Texas. It should be noted that, unlike most states, Texas regulates intrastate transportation of agricultural commodities by motor carrier. Schuster's general approach was to develop costs which carriers "should have" incurred and compared them to prices (rates) paid for specific transportation movements. Schuster developed a model that was used to estimate truckload costs for transporting hogs, feeder cattle, grain, cottonseed meal, rice bran, poultry, and fresh fruits and vegetables.

These costs were then compared to rates published in various Texas Railroad Commission tariffs. Results of this comparison showed that rates published in the Texas Railroad Commission tariffs ranged from 13.8 percent in excess of motor carrier revenue needs for fresh fruits and vegetables to 81.2 percent in excess of revenue needs for chill-pack poultry.

Schuster concluded that intrastate motor carrier regulation cost

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<sup>1</sup>Nonurban shippers/receivers were defined as those shippers and receivers not located in the Phoenix and Tucson metropolitan areas.



producers and consumers in Texas about \$38 million in 1981 and \$41 million in 1983. He also concluded that under deregulation a substantial portion of this savings would be reallocated to producers and consumers. Schuster suggested that deregulation would cause a major shift from specialized carriers to owner-operators and private and common carriers who have lower cost structures. These lower cost structures would lead to the aforementioned cost savings.

Fuller, et.al., (4) also studied the effects of intrastate motor carrier regulation in Texas. Results of their study indicated that intrastate regulation may lead to geographical price discrimination and unnecessarily increase marketing costs. They also concluded that intrastate regulation does not improve the quality of service offered to agricultural shippers and receivers or result in improved service to small and rural shippers.

#### Minnesota

Harper (5) conducted a study of intrastate motor carrier regulation in Minnesota in November 1982. Harper utilized personal interviews and mailed questionnaires to survey two groups of shippers: (1) manufacturers, and (2) country grain elevators.

Harper concluded that manufacturers did not have a preference either way for regulation or regulatory reform involving intrastate motor carrier operations. Manufacturers were critical of rate regulation, but were generally satisfied with the quality of service.

Harper found that grain elevators were much more critical of intrastate regulation. Grain shippers wanted entry restrictions to be eased and were critical of rate regulation by the Public Utilities Commission. Grain shippers were also displeased with the quality of service provided by regulated carriers.

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