Internal Cross-Subsidizations in the General Freight Sector of the Motor Carrier Industry

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A major area of controversy in the debate on regulatory reform of the motor carrier industry is the degree of internal cross-subsidization between small and large shippers and shipments, localities, and different commodities. This paper uses a microlevel econometric model of the motor carrier firm, with Interstate Commerce Commission (ICC) cost study data and class rates approved by the ICC in early 1976, to determine the probable existence of internal cross-subsidizations between shipments of different weights that are moved between metropolitan areas belonging to different population categories. The paper reveals extensive cross-subsidizations of this sort and of another sort: between shipments moving in different traffic lanes and rated in different class rate classifications. The ICC's cost methodology can also cause internal cross-subsidies. Use of cost-related, point-to-point, and multiple shipment tender rates to eliminate internal cross-subsidies is recommended, as are changes in the ICC's motor carrier costing methodology.

Internal cross-subsidies frequently occur in industries where two or more products are produced from the same production process. For the purpose of this paper, an internal cross-subsidy occurs when the revenues received from the sales of one or more products exceed each product's variable, or direct, costs of production and, simultaneously, the revenues received from the sales of other products are exceeded by each product's variable, or direct, costs of production. If such a situation is permitted to continue for a considerable period of time, the buyers of the products whose revenues exceed production costs are subsidizing, through an internal transfer of funds within the business enterprise, the provision of products to buyers whose production costs exceed revenues.

As Milne (1) points out, internal cross-subsidization is a problem in transportation. Internal cross-subsidies result in price discrimination and the misallocation of economic resources. The Interstate Commerce Act has prohibited three major forms of transportation price discrimination (personal, location, and commodity). As Kahn (2) points out, one function of transportation economic regulation is to minimize the misallocation of economic resources that might occur in an unfettered, regulatory-wise, transportation system.

This paper identifies and appraises internal cross-subsidizations in the general freight sector of the motor carrier industry. First, the methodology used to identify internal cross-subsidizations is briefly discussed. The methodology is then used to identify internal cross-subsidizations in the general freight sector of the motor carrier industry between various shipper classes and localities. The paper concludes with recommendations for changes in regulatory policy and the Interstate Commerce Commission's (ICC's) cost methodology.

METHODOLOGY

The probable presence of internal cross-subsidies between various motor carrier shipment and shipper categories can be inferred by comparing the revenues realized from shipments of average density with the variable costs incurred in providing the shipments with transportation services. This is the essence of the methodology used in the research reported here to draw inferences on the probable presence of internal cross-subsidies between various less-than-truckload (LTL) shipment and shipper categories.

Three requirements had to be satisfied before the methodology could be used to determine the probable presence of internal cross-subsidies. First, a model was required to replicate the process of providing motor carrier transportation services to a wide variety of users under a host of different circumstances. One model of the motor carrier firm that met this requirement was the microlevel econometric model developed by Schuster (3).

The second requirement was data for estimating the model's parameters. This requirement was satisfied by data from the following two sources: first, operational and traffic data submitted by the 225 carriers who participated in the ICC's 1971 cost studies of the New England I and II, Central, and Eastern-Central territories (4, 5, 6, 7) and, second, the platform handling time data obtained by the ICC in its 1969-1970 special study of shipment platform handling (8). The use of the 1971 cost study data permitted conclusions to be drawn on the probable existence and extent of internal cross-subsidies for long-haul and short-haul carriers. In terms of average shipment length of haul, the carriers who participated in the Eastern-Central territory cost study were long-haul carriers, while the carriers who participated in the other three cost studies were short-haul carriers.

The third requirement for use of the methodology was for revenue data on shipments of average density. It was assumed that class 4 in the New England Motor Freight Classification and class 100 in the National Motor Freight Classification were, in general, the appropriate class ratings to be used for shipments of average density. The revenue data requirement was satisfied by using the class rates approved as a result of general revenue proceedings (New Procedures in Motor Carrier Revenue Proceedings, Ex Parte MC-82, 351 ICC 1) submitted in the autumn of 1975 by the New England, Central, Eastern-Central, and Middle Atlantic rate bureaus.

The data collected by the ICC were statistically analyzed, primarily through the use of multiple regression analysis, to estimate the parameters of the motor carrier firm model for each of the four cost study territories. Then the model was used with 1975 variable per hour and per kilometer cost data reported by the ICC (9), to estimate the variable costs of providing transportation services to LTL shipments in various traffic segments. The variable costs were then compared with shipment revenues to determine the probable presence of internal cross-subsidies between shippers in various traffic segments served by different carrier categories.

IDENTIFICATION OF INTERNAL CROSS-SUBSIDIES

This section focuses on the probable presence of internal cross-subsidies by shipment weight and traffic lane. In addition, the impact of two alternative cost methodologies on motor carrier estimated costs is discussed.

Shipment Weight

The econometric model of the motor carrier firm production function (3) was used with the sample data collected in the ICC's 1971 territorial cost studies and the 1969-1970 platform study to obtain the following estimates of mean variable costs (updated to 1975 cost levels) for the mean shipment weight in each of the eight standard ICC under-4500-kg (10 000-lb) weight brackets: (a) mean systemwide variable costs for mean shipment length of haul for the carriers participating in the 1971 cost studies of the Central and Eastern-Central territories, (b) mean variable costs for shipments moving between Boston and Torrington, Connecticut, for carriers participating in the 1971 cost study of the New England I region, and (c) mean variable costs for shipments moving between New London, Connecticut, and Scranton, Pennsylvania, for carriers participating in the 1971 cost study of the New England II territory. The costs are computed for specific points for New England I and II carriers, which approximate each territory's average shipment length of haul, because the class rate tariffs published by the New England and Middle Atlantic rate bureaus are for movements between specific points.

Table 1 shows what the single-line shipment costs per 45 kg (100 lb) are by weight bracket for shipments moved one at a time and what the percentages of the mean single-line shipment costs are for all eight weight brackets under 4500 kg (10 000 lb). Table 1 shows there is an 11- to 15-fold difference between variable shipment per-45-kg costs in the lowest and highest LTL shipment weight brackets.

The difference between the rate charged for and the variable costs of providing (the margin on) specific transportation services can be used in identifying internal cross-subsidies. If margins are positive for shipments in some weight brackets and negative for shipments in other weight brackets, internal cross-subsidies exist between shipments in different weight brackets.

Table 2 contains the margins for shipments moving under class rates in the ICC's eight standard LTL shipment weight brackets. Table 2 shows, in general, that shipments weighing less than 135 kg (300 lb) are cross-subsidized to some extent by shipments in the higher weight brackets. If constant costs in the range of 10 percent of revenues and a target profit margin, before taxes, of approximately 7 percent are assumed, Table 2 shows that LTL shipments of average density become profitable, on a fully allocated cost basis, when shipment weight exceeds 225 kg (500 lb).

A second finding is that the degree of internal cross-subsidization between shipments of different weights is a function of the shipment's class rating. Shipment density is the primary factor used to determine the rate classification into which specific commodities will be classified. Schuster (3) has shown that shipment density has little impact on terminal costs, which are the major component of LTL shipment variable costs. Therefore, for example, LTL shipments moving under class rating 50 will provide the carrier with approxi-

Table 1. Single-line LTL shipment costs by weight bracket and cost study territory.

	New England I		New England II		Central		Eastern-Central	
Shipment Weight Range (kg)	Cost Per 45 kg ($)	Percent Mean LTL Shipment Cost	Cost Per 45 kg ($)	Percent Mean LTL Shipment Cost	Cost Per 45 kg ($)	Percent Mean LTL Shipment Cost	Cost Per 45 kg ($)	Percent Mean LTL Shipment Cost
0-66	16.709	492.45	17.102	457.40	16.691	552.68	27.866	460.06
67-134	7.774	229.11	8.790	235.09	8.102	268.25	13.522	223.24
135-224	5.103	150.39	5.929	158.57	5.251	173.85	9.148	151.03
225-449	3.696	108.93	4.342	116.13	3.665	121.34	7.317	120.80
450-899	2.474	72.91	3.014	80.61	2.493	82.54	4.852	80.10
900-2249	1.767	52.08	2.207	59.03	1.697	56.19	3.548	58.58
2250-2699	1.193	35.16	1.525	40.79	1.207	39.96	2.576	42.53
2700-4499	1.146	33.77	1.491	39.88	1.111	36.78	2.457	40.56
All LTL shipment weight brackets	3.393	100.00	3.739	100.00	3.020	100.00	6.057	100.00

Notes: 1 km = 0.62 mile and 1 kg = 2.2 lb.
Cost study haul lengths were 204 km for New England I, 357 km for New England II, 288 km for the Central region, and 997 km for the Eastern-Central region.

Table 2. Margins on single-line LTL shipments by weight bracket and cost study territory.

	New England I		New England II		Central		Eastern-Central	
Shipment Weight Range (kg)	Absolute Margin ($)	Percentage Margin	Absolute Margin ($)	Percentage Margin	Absolute Margin ($)	Percentage Margin	Absolute Margin ($)	Percentage Margin
0-66	-4.101[a]	142.72	-0.479[a]	103.33	-1.188[a]	108.80	-9.452[a]	162.72
67-134	-7.075	172.82	-0.574	103.17	-0.778	104.68	-8.088	138.54
135-224	-2.140	112.40	9.560	69.59	9.508	67.84	2.302	93.73
225-449	3.405	87.80	9.488	80.48	18.786	56.21	7.884	85.78
450-899	22.188	58.76	37.336	51.16	31.966	50.36	34.191	64.95
900-2249	45.966	51.81	91.998	39.70	70.046	40.60	86.483	53.43
2250-2699	74.660	46.05	158.596	33.67	110.176	36.58	146.107	48.15
2700-4499	103.173	44.26	220.080	32.92	167.218	33.67	216.880	45.91

Notes: 1 kg = 2.2 lb.
The class rate tariff bases for each class by territory were 130 for class 4 New England I, 92 for class 100 New England II, 171-180 for class 100 Central, and 601-620 for class 100 Eastern-Central.

[a]Minimum charge shipment.

mately one-half of the revenue of shipments in class rating 100, although the costs of effecting the movement of shipments in class rating 50 are only slightly lower, on the average, than the costs incurred by LTL shipments in class rating 100. Consequently, differences in revenues, without concomitant cost reductions, will cause shipments in different class rating classifications to have different degrees of internal cross-subsidization between weight brackets. Winship (Initial Statement on Behalf of Georgia Highway Express, Inc., Before the Interstate Commerce Commission, New Procedures in Motor Carrier Restructuring Procedures, Ex Parte MC-98, ICC March 8, 1976) provides evidence of the existence of cross-subsidies between rate classifications when shipment weight is held constant.

A third finding of Table 2 is that long-haul carriers, such as the Eastern-Central study carriers, may internally cross-subsidize shipments belonging to different weight brackets to a greater extent than short-haul carriers. A major implication of these last two findings is that internal cross-subsidies between shipments of different rate weights classified differently can cause long-haul motor carriers to aggressively compete only with other motor carriers for shipments where profitability, as measured by contribution margins, is relatively high.

Traffic Lane

Shipment origin-destination is a second basis by which motor carrier traffic may be differentiated. Each unique origin and destination pair is termed a traffic lane. The machine-readable pickup and delivery trip data collected in the ICC's 1971 territorial cost studies indicate the locality from which pickup and delivery trips were made and can be used to determine pickup and delivery costs for different metropolitan areas. Since pickup and delivery costs are the major component of terminal expenses, which, in turn, are the major component of variable cost for the vast majority of LTL shipments, the ICC-collected cost study data can be used to obtain an appreciation of how motor carrier costs and internal cross-subsidies vary by traffic lane.

One basis by which traffic lanes may be differentiated is the population of the metropolitan area in which each traffic lane's origin and destination is located. Schuster (3) and Schuster and others (10) have shown that the pickup and delivery cost model's parameters vary with the population of the urban area in which the trip is made. Consequently, urban areas may be paired by population category to obtain an indication of the differences, if any, in motor carrier variable costs and contribution margins that may exist by traffic lane. An appreciation of the possible magnitude of any differences in costs and contribution margins that may exist due to urban area population can be obtained by viewing motor carrier costs and contribution margins in small, medium, and large urban areas for carriers participating in the Central and Eastern-Central territorial cost studies.

Tables 3 and 4 contain estimates of contribution margins for shipments originating and terminating in five urban area population categories served by carriers participating in the 1971 Central and Eastern-Central territorial cost studies. The contribution margins were determined by using 1975 cost data with the class rates approved by the ICC in general revenue proceedings in early 1976. These tariffs provided, in general, for uniform freight rates throughout each cost study territory.

The data provide five major findings. First, shipments originating and terminating in urban areas belonging to different urban area population categories have different mean costs. In general, LTL shipment per-45-kg (100-lb) costs increase as the populations of the urban areas in which the shipment originated and terminated increase.

Although this result is the opposite of the frequently heard statement that it costs motor carriers more to serve small than large urban areas, this result was anticipated for the following two reasons. First, pickup and delivery costs increase as urban area population increases. This is due to the large size and higher degree of traffic congestion. Second, since systemwide line-haul load factors were used to compute line-haul costs, total variable costs would be expected to fluctuate in accordance with the pickup and delivery costs experienced in the metropolitan areas where individual shipments originated and terminated.

These results should not be interpreted as stating, with a high degree of certainty, that motor carriers experience lower costs in serving smaller urban areas than larger urban areas. However, they do establish a need for the computation of line-haul load factors and variable costs on a traffic lane basis in order that relatively accurate costs of serving different urban areas may be computed. In this regard, it should be noted that only the costs of TL and the larger LTL shipments will probably be sensitive to traffic lane load factors, as Schuster (3) has shown that it is only for these shipment categories that line-haul costs are a relatively large proportion of total variable costs.

Second, shipment profitability appears to be a function of the traffic lane in which the shipment moves when LTL shipment class rates are uniform throughout a rate-making territory. Tables 3 and 4 show that shipments moved between urban areas in the lower population categories have higher margins than shipments moving between urban areas in the higher population categories. Again, this is a tentative conclusion based on the use of average systemwide line-haul load factors reported in ICC cost publications. As previously discussed, load factors for specific traffic lanes are needed in order to determine the true margins realized by motor carriers on specific shipments.

Third, it appears that internal cross-subsidies do exist between shipments moving in different traffic lanes. The cross-subsidies appear to be most serious between traffic lanes composed of urban areas with populations in excess of 2 500 000 people and other urban areas. In traffic lanes composed of urban areas with populations in excess of 2 500 000 people, the shipments weighing less than 225 kg (100 lb) are subsidized to a greater extent by shipments moving in other traffic lanes.

Fourth, the problem of internal cross-subsidization between traffic lanes appears to diminish as shipment weight increases. The percentage difference in margins ranges from 81.7 percent for shipments in the lowest LTL shipment weight bracket, to 3.96 percent for shipments in the highest LTL shipment weight bracket.

Finally, the problem of internal cross-subsidization between traffic lanes may be more of a problem for long-haul than for short-haul carriers. This conclusion is based on the higher percentage differences in traffic lane margins for Eastern-Central territory carriers than for Central region carriers.

Cost Methodology

The cost methodology used to determine motor carrier costs can also cause internal cross-subsidies. If the cost methodology fails to indicate to the decision maker the economic relationships between alternative courses of action, the misallocation of economic resources has a high probability of occurrence. In the pricing of

motor carrier services, economists (11, 12, 13) generally agree that the price should reflect the marginal, or avoidable, costs of providing the transportation services.

The cost methodology used in this paper to compute motor carrier costs determines the marginal, or avoidable, costs of providing specific bundles of transportation services. In contrast, the ICC's Highway Form A cost methodology (14, 15) focuses on determining the average cost per 45 kg (100 lb) of providing motor carrier transportation services under a wide range of conditions. Table 5 shows that the ICC's Highway Form A methodology, in general, tends to understate the costs of single-line LTL shipment traffic that weighs less than 900 kg (2000 lb) and to overstate the costs of single-line traffic in the higher LTL shipment weight brackets.

The Form A cost methodology averages the high per-45-kg costs of single shipment tenders with the low per-45-kg costs of multiple shipment tenders to arrive at a per-45-kg cost for the shipments making up each weight bracket. This averaging process results in a redistribution of shipment costs from the lower to the higher LTL shipment weight brackets. In contrast, the cost methodology used in this paper permits the user to determine the marginal costs associated with either single or multiple shipment tenders.

The effect of the average costing of this methodology is to present decision makers with cost data that fail to reflect the economic advantages accruing to motor carriers if shippers used practices that reduced motor carrier costs. In turn, by failing to know the economic consequences of alternative transportation strategies that could be followed by the shipper, carriers are unable to fashion rate structures, causing shippers to use shipping practices to reduce both carrier costs and shippers' total distribution costs. Consequently, the Highway Form A cost methodology causes shippers who use shipping practices that reduce carrier costs to cross-subsidize shippers who use, from the carrier's point of view, inefficient shipping practices.

RECOMMENDATIONS

The above analysis has shown that it is highly probable

Table 3. Margins on single-line LTL shipments for the Central region by weight bracket and urban area population.

Shipment Weight Range (kg)	Population 25 000-49 999		Population 100 000-249 999		Population 500 000-999 999		Population 2 500 000-4 999 999		Population 5 Million or More	
	Absolute Margin ($)	Percentage Margin	Absolute Margin ($)	Percentage Margin	Absolute Margin ($)	Percentage Margin	Absolute Margin ($)	Percentage Margin	Absolute Margin ($)	Percentage Margin
0-66	2.451	81.84	0.997	92.61	-1.211	108.97	-4.445	132.93	-4.919	136.44
67-134	3.061	81.61	1.537	90.76	-0.801	104.81	-4.213	125.32	-4.721	128.37
135-224	13.408	54.62	11.896	59.77	9.486	67.92	5.982	79.77	5.458	81.54
225-449	22.992	46.41	21.356	50.22	18.766	56.26	15.012	65.01	14.438	66.35
450-899	36.736	42.96	34.836	45.91	31.942	50.40	27.760	56.89	27.102	57.92
900-2249	75.267	36.17	73.229	37.90	70.013	40.63	65.399	44.54	64.659	45.17
2250-2699	114.437	34.12	113.275	34.79	110.145	36.59	105.733	39.13	105.025	39.54
2700-4499	171.708	31.89	170.550	32.34	167.190	33.68	162.484	35.54	161.716	35.85

Notes: 1 kg = 2.2 lb.
1975 costs used with rate basis 171-180, class 100, Central States Class Rate Tariff approved in early 1976.

Table 4. Margins on single-line LTL shipments for the Eastern-Central region by weight bracket and urban area population.

Shipment Weight Range (kg)	Population 25 000-49 999		Population 100 000-249 999		Population 500 000-999 999		Population 2 500 000-4 999 999		Population 5 Million or More	
	Absolute Margin ($)	Percentage Margin	Absolute Margin ($)	Percentage Margin	Absolute Margin ($)	Percentage Margin	Absolute Margin ($)	Percentage Margin	Absolute Margin ($)	Percentage Margin
0-66	-1.068	107.08	-4.924	132.67	-6.855	160.04	-11.752	177.98	-13.379	188.78
67-134	-0.616	102.94	-4.633	122.08	-6.680	131.83	-11.852	156.48	-13.575	164.69
135-224	9.851	73.16	5.845	84.07	3.728	89.84	-1.510	104.11	-3.265	108.90
225-449	16.068	71.02	11.802	78.71	9.438	82.98	3.709	93.31	1.799	96.76
450-899	42.939	55.99	38.462	60.58	35.861	63.24	29.674	69.58	27.908	71.70
900-2249	96.154	48.23	91.295	50.84	88.348	52.43	81.474	56.13	79.173	57.37
2250-2699	154.865	45.04	150.682	46.53	147.824	47.54	141.460	49.80	139.337	50.55
2700-4499	226.305	43.56	221.836	44.68	218.678	45.46	211.736	47.20	209.417	47.77

Notes: 1 kg = 2.2 lb.
1975 costs used with rate basis 601-620, Class 100, Eastern-Central Class Rate Tariff approved in early 1976.

Table 5. Comparison of single-line LTL shipment costs in dollars per 45 kg for mean shipment length of haul.

Weight Bracket (kg)	New England I		New England II		Central		Eastern-Central	
	ICC Costs Per 45 kg	Single Shipment Costs Per 45 kg	ICC Costs Per 45 kg	Single Shipment Costs Per 45 kg	ICC Costs Per 45 kg	Single Shipment Costs Per 45 kg	ICC Costs Per 45 kg	Single Shipment Costs Per 45 kg
0-66	9.911	16.709	14.169	17.102	11.781	16.691	17.326	27.866
67-134	4.369	7.774	8.083	8.790	6.369	8.102	9.916	13.522
135-224	3.690	5.103	5.324	5.929	4.138	5.251	7.512	9.148
225-449	2.677	3.696	4.058	4.342	3.163	3.665	5.972	7.317
450-899	2.425	2.474	3.308	3.014	2.403	2.493	4.821	4.852
900-2249	1.683	1.767	2.538	2.207	1.773	1.697	3.767	3.548
2250-2699	1.309	1.193	1.943	1.525	1.369	1.207	3.072	2.576
2700-4499	1.207	1.146	1.759	1.491	1.204	1.111	2.730	2.457

Note: 1 kg = 2.2 lb.

that internal cross-subsidizations exist between different traffic categories in the general freight sector of the motor carrier industry. The internal cross-subsidies appear to be of the greatest magnitude for shipments that are members of different weight brackets. In addition, cross-subsidies also appear to exist between shipments rated in different class rate classifications, between shipments moving in different traffic lanes, and as a result of the cost methodology used by the ICC for motor carriage. These conclusions yield four major recommendations for regulatory policy.

First, the data clearly indicate a need for freight rates, particularly in the lower LTL shipment weight brackets, that are more closely related to cost. The extensive use by general freight carriers of the railroad rate classification has caused, to a great extent, motor carrier profitability to be a function of the carrier's adeptness in practicing market segmentation and aggressively pursuing profitable traffic, and not a function of the carrier's efficiency in providing transportation services. In addition, the great disparity between revenues and costs in the lower LTL shipment weight brackets has caused carriers to maintain rates on the profitable, larger LTL shipments at such high levels that many shippers have been able to implement cost-effective private carriage operations.

A second recommendation is that the ICC should encourage point-to-point rates, rather than rates based on distance scales, in those traffic lanes where (a) the costs of providing motor carrier transportation services are significantly different from average costs and (b) the total shipment weight in the traffic lane is relatively large. It may be possible to group traffic lanes having similar costs into rate categories and thus establish a rate structure only slightly more complex than that currently provided by distance scales.

Third, the ICC should encourage the use of multiple tender rates for smaller LTL shipments in localities that have higher than average pickup and delivery costs. Estimates of the cost savings that carriers can realize through the implementation of multiple shipment tender rates are provided by Schuster (16).

A final recommendation is that the motor carrier cost formulas used by the ICC need revision. They are now geared to providing information on the average costs experienced by carriers. While this category of cost data is useful in general revenue proceedings, it is of marginal usefulness in the evaluation of specific transportation prices. What is needed, in this latter instance, is cost information that can be used to reflect the economic relationships between alternative transportation prices and that permits the ICC and other interested parties to more accurately estimate the magnitude of internal cross-subsidies.

The magnitude of internal cross-subsidies in the general freight sector of the motor carrier industry can be more accurately estimated if the ICC takes the following action. First, type of commodity, revenue, and shipment length of haul data should be included in the traffic data used in the ICC's territorial cost studies. Inclusion of these data categories will permit both more accurate estimates of the magnitude of all types of internal cross-subsidies and determinations of the magnitude of two types of internal cross-subsidies that cannot be accurately estimated with the data currently in the public domain—internal cross-subsidies between different commodities and for different shipment lengths of haul. Type of commodity, revenue, and shipment length-of-haul data are currently included in the rate bureaus' continuous traffic studies and should be provided by rate bureaus to the ICC with other traffic data for use in the territorial cost studies.

Two other actions the ICC needs to take are concerned with the revision of their motor carrier cost formulas. First, the cost formulas need to be revised to determine the avoidable costs of specific motor carrier transportation services. Griliches (17) says, "The studies underlying the [railroad] cost study are at least ten years behind the state of the art in statistical investigations of economic data." These remarks are equally applicable to the ICC's costing of motor carriage.

Finally, the ICC's data-processing procedures and the motor carrier cost formulas should be revised to determine load factors by traffic lane. The data required to compute traffic lane load factors are currently reported to the ICC by carriers participating in territorial cost studies; however, the traffic lane data are not currently converted to machine-readable form.

The accomplishment of these recommendations will not be a panacea for the internal cross-subsidy problem; however, they will permit better determination of the magnitude of any internal cross-subsidies that might exist and to reduce their magnitude, if public policy deems them to be socially undesirable.

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Observations on Proposals to Relax Motor Carrier Regulatory Entry Controls

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The paper provides a carrier management perspective on continuing efforts by the Interstate Commerce Commission (ICC) to administratively reform motor carrier entry regulations. The normative framework as proposed by the ICC in which relaxation of entry controls would theoretically (a) result in significantly higher transport prices for small businesses and rural communities, (b) endanger the financial health of the motor common carrier industry, (c) militate against high-priority sociopolitical programs, and (d) nevertheless lead to less, not more, competition in most origin-destination city pair freight transport markets is described. Informed research of scientific quality to test the propositions put forth is requested.

The focus of motor carrier regulatory reform seems to have shifted recently toward administrative and policy changes within the Interstate Commerce Commission (ICC). Specifically, on July 6, 1977, an ICC staff task force submitted a report and set of recommendations to Chairman A. Daniel O'Neal entitled Improving Motor Carrier Entry Regulation, and the commission immediately began holding hearings on the recommendations.

Those staff task force recommendations aimed at simplifying the administrative process at the ICC are commendable. However, a handful of the recommendations taken together could seriously damage the nation's common carrier system and seriously impact the financial health of the motor carrier industry. This paper discusses the potential implications of a select few task force recommendations.

TASK FORCE RECOMMENDATIONS THAT COULD DAMAGE THE COMMON CARRIER SYSTEM

In recommendation 16, the task force suggests "that the Commission make it a practice to grant, without regard to opposition, a limited-use contract carrier permit to contract carriers serving only a single shipper or affiliated shippers." In recommendation 33, it asks the Commission to consider, among other things, "(w)hether independent truckers should be allowed to lease their equipment to private carriers, either on a long-term or on a trip-lease basis," and "(w)hether private carriers should be given more freedom to trip lease their vehicles on backhaul movements." These recommendations, taken together, would greatly increase the ability of private fleet operators to remove freight from the common carrier system by providing them with freight return-load capability.

Common Carrier Concept Versus Economic Theory

Recommendations 16 and 33 seem to reflect a concern that in some instances individual shippers are required to use the common carrier system for transportation service that could be obtained cheaper by an alternative method in the absence of regulation. Examples of regulation frustrating efforts by individual shippers to minimize transportation costs abound and offend notions of economic efficiency. Such specific examples, in fact, are the most powerful ammunition of the forces of de-