

Analysis of Implicit Trade-Off Between Costs and Benefits of Rate Bureaus

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Responses to questionnaires were analyzed to determine the implicit trade-off made by shippers between the costs and benefits of rate bureaus. The responses indicate that shippers perceive rate bureaus as beneficial and necessary to prevent rate discrimination, to maintain rate stability, and to facilitate joint rates and services. The responses also indicate that these benefits are not obtained at the expense of having too little rate or service competition. Small shippers perceive the benefits more strongly than large shippers. However, neither the freedom of independent rate making nor the flexibility of rate and service were viewed as adequate. These results suggest that some changes may be necessary in rate bureau organization, but these changes do not include the repeal of current anti-trust exemptions.

Many motor carrier rates are set collectively in the regulated trucking industry. This is accomplished through the regional rate bureau, an intramodal organization of carriers established to consider jointly rates, classifications, divisions, and other pricing matters in a given region. Under ordinary circumstances such collective action would be a violation of federal antitrust laws. However, the U.S. Congress exempted rate bureaus from federal antitrust laws by passing the Carriers' Rate Bureau Act of 1942 (also referred to as the Reed-Bullwinkle Act).

The antitrust exemption for rate bureaus has been a source of controversy from its inception. Recent activity includes the U.S. Department of Transportation's call for reducing the role of the rate bureau in its legislative program for regulatory reform (1). In June 1975, the Interstate Commerce Commission (ICC) concluded its own rate organization changes (2). The U.S. Senate Subcommittee on Antitrust and Monopoly, Senate Judiciary Committee, recently completed its own hearings on freight rate competition in the motor carrier industry. Also, in January 1976, the ICC initiated two ongoing proceedings to (a) reconsider existing Section-5a exemptions and (b) determine if terms and conditions on railroad rate bureaus established by the Railroad Revitalization and Regulatory Reform Act, enacted later in 1976, should be applied to other modes (3, 4).

This paper examines some of the issues raised in connection with the recent concern over the antitrust exemption for motor carrier rate bureaus. Particular emphasis is placed on the questions raised in Ex Parte 297 (Sub No. 4). A questionnaire was used to pool expert opinion on pertinent issues.

COLLECTIVE RATE-MAKING ISSUES

In Ex Parte No. 297 (Sub No. 4) the ICC ordered each motor carrier rate bureau to submit evidence to determine if their collective rate-making agreement still qualifies for ICC approval.

The evidence submitted must be relevant to one of the following issues and related questions (4):

1. Does the agreement enhance one or more national transportation policy goals (benefits)?
2. Will the agreement harm interests intended to be protected by antitrust laws (costs)?
3. Do the benefits exceed the costs?
4. Can any of the goals that justify the collective rate-making agreement under consideration be accom-

plished by some method other than collective action?

5. Can any of the goals that justify membership in the agreement by any specific parties be accomplished without belonging to the agreement?

6. What regulates the number of carriers with operating authority from the ICC that qualify for membership in the agreement but are not parties to the agreement?

The questions and issues posed by the ICC are based on the premise that the ICC will continue its regulation of entry and rates. The same premises do not exist in all arguments against the existence of rate bureaus. Many arguments that support the abolition of rate bureaus are based on the assumption that the motor freight industry is workably competitive. The underlying premise is that there should neither be rate bureau exemptions nor economic regulation of rates or entry.

Two observations are relevant. First, it is not evident to every academician, transportation policy analyst, and other interested parties that the motor freight industry is workably competitive (5). Current knowledge of the structure, conduct, and performance of unregulated or regulated trucking is woefully incomplete, and it is slowly being recognized that the trucking industry may be better viewed as several industries (6). Basic questions, such as whether economies of scale exist in trucking, remain controversial despite the plethora of recent empirical evidence (7). Thus the validity of the expected performance of various deregulation measures is only as good as the underlying assumptions about market structure, and these assumptions are not as certain as they frequently are perceived.

Second, in analyzing prospective policy changes, what is being changed must be separated from what is not being changed. Thus, for the purposes of the current ICC investigations, it is important to identify consequences resulting from changes in regulation of rate bureaus alone and not changes in overall rate or entry regulation as well. Indeed, the effect of the latter changes appears to be the central issue in the Senate's freight rate competition hearings.

The Senate hearings, however, did raise several questions about rate bureau costs and benefits that deserve further attention. One issue is that of differential benefits to small shippers versus large shippers. It was observed that

Certain shippers command substantial and sometimes overwhelmingly superior bargaining power stemming from a number of factors. These include financial strength, amounts of freight service purchased, varied mixes of "controlled traffic," creative and aggressive management of logistics and traffic functions, geographically diverse alternative locations for the procurement of raw materials and production for sale of outputs, and participation in intercorporate collective efforts involving certain aspects of shippers' relationships with carriers. The existence of this power could mean that in a free market situation, shippers dominating transport markets could force the level of rates down to where a shortfall could exist between carriers' total revenues and total costs. Carriers, in turn, would attempt to increase rates on traffic of other shippers. Small shippers would no doubt bear the brunt of these increases (8).

Inasmuch as it is also desirable to encourage small enterprise, it would be important to distinguish the dif-

ferential consequences of the rate bureau process on large and small shippers.

METHODOLOGY AND OBJECTIVES

A mail questionnaire was used to collect data from shippers affected by the actions of a major rate bureau. The questionnaire was designed to solicit responses on three of the issues or questions posed by the ICC order in Ex Parte 297 (Sub 4). Shipper respondents were asked

1. To agree or disagree with statements asserting that the rate bureau and collective rate making enhances specific goals [There are numerous goals identified or implicit in the statement of national transportation policy and other parts of the Interstate Commerce Act. With regard to the general issue of collective rate making, three goals are especially relevant. It is frequently asserted that the collective rate-making process (a) protects the shipping public from unjust, unreasonable, and discriminatory rates; (b) ensures the shipping public a high degree of rate stability and certainty; and (c) facilitates the making of joint rates essential to the availability of joint services];
2. To agree or disagree with statements asserting that specific goals would not be achieved without the existence of rate bureaus and collective rate making; and
3. To agree or disagree with statements regarding the significance and nature of competition in trucking.

In addition, carriers were asked questions designed to indicate whether bureaus are discouraging rate competition.

Shipper respondents were those on the Middle Atlantic Conference (MAC) tariff mailing list. Firms on this list are interested in the issues central to the current ICC investigation. However, the possibility exists that shippers (doing business in the geographic areas served by MAC carriers) who do not subscribe to the tariff publications have attitudes different from the subscribing shippers. Until a profile of such shippers can be developed, the extent of any bias is uncertain. The 2313 shippers on the MAC tariff list were sent questionnaires. Multiple listings and unmailable addresses reduced this figure to 1761. Usable returns numbering 412 resulted in a response rate of 23.4 percent.

The shippers were asked to indicate the number of dollars spent annually on transportation. The distribution of those responding is summarized in the following table:

Annual Freight Bill (\$)	Number of Shippers	Percentage of All Shippers
Under 100 000	18	4.4
100 000-1 000 000	85	20.6
1 000 000-10 000 000	168	40.8
More than 10 000 000	126	30.6
Not indicated	15	3.6
Total	412	100.0

In analyzing specific responses, shippers with freight bills below \$1 million annually were classified as small shippers.

ROLE OF RATE BUREAUS IN PRESERVING RATE STABILITY

Shippers were asked questions relating to the effectiveness of rate bureaus in their role of maintaining rate stability. Tables 1 and 2 indicate that shippers generally perceive the rate bureaus as a necessary instrument

assisting in the maintenance of rate stability. The small shippers agree more strongly than the large shippers. In Table 1, for example, 89.1 percent of the small shippers agreed or strongly agreed that rate stability is maintained by the bureau process; only 78.6 percent of the large shippers made similar responses. In addition, the small shippers had proportionately more "strongly agree" responses.

The shippers were also asked if they would be able to guarantee for themselves the present level of rate stability. As shown in the following table, the majority of the shippers answered this question in the negative:

Group	Yes	No	Miscoded	Total Cases
All shippers	109	285	2	396
Small shippers	17	83	—	100
Large shippers	89	191	2	282

The χ^2 statistic (i.e., the variation between shipper size and response) of 8.75 at the 0.0328 level also indicates that small shippers feel they have significantly less ability to do so.

ROLE OF RATE BUREAUS IN MAINTAINING JOINT LINE RATES AND SERVICE

Shippers were asked to respond to statements about the need for collective rate making to maintain joint line rates. The responses shown in Tables 3 and 4 indicate that the majority of the shippers perceive collective rate making as essential to the availability of joint line rates and service. For example, in Table 4, 71.1 percent of the shippers agreed or strongly agreed. Table 4 also indicates that the small-shipper group agrees more (79.4 percent) than the large-shipper (68.0 percent) group. Again, the small shippers had relatively more "strongly agree" responses.

ROLE OF RATE BUREAUS IN PREVENTING RATE DISCRIMINATION

Shippers were asked questions relating to the effectiveness of rate bureaus in the role of assisting in the prevention of rate discrimination. Tables 5 and 6 indicate that the bulk of the shippers perceive the rate bureaus as an effective instrument for maintaining nondiscriminatory rates.

The small shippers again agree more strongly and frequently than do the large shippers on these questions. This is evident in Table 6 where 84.3 percent of the small shippers agreed or strongly agreed, while 74.5 percent of the large shippers agreed or strongly agreed.

Each respondent also indicated whether it could ensure that its firm is receiving nondiscriminatory rates in the absence of rate bureaus. As shown in the following table, the majority responded to this question in the negative:

Group	Yes	No	Total Cases
All shippers	106	293	399
Small shippers	15	88	103
Large shippers	87	194	281

As with assuring themselves with rate stability, the large shippers appear to be able to assure themselves of nondiscriminatory rates more often than the small shippers. Again a statistically significant χ^2 (9.56 at the 0.0020 level) supports this observation.

Table 1. Responses to "Rate instability and uncertainty would occur without rate bureaus".

Group	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree		Total Cases
	No.	%	No.	%	No.	%	No.	%	No.	%	
All shippers	129	31.7	199	49.1	15	3.2	43	10.6	19	4.7	405
Small shippers	43	42.6	47	46.5	2	2.0	7	6.9	2	2.0	101
Large shippers	82	28.2	145	60.1	12	4.2	34	11.8	16	5.5	289

Table 2. Responses to "The rate bureau process results in rate stability".

Group	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree		Total Cases
	No.	%	No.	%	No.	%	No.	%	No.	%	
All shippers	91	22.4	243	59.9	30	7.4	32	7.9	10	2.5	406
Small shippers	29	28.4	60	58.8	6	5.9	6	5.9	1	1.0	102
Large shippers	58	20.1	175	60.6	24	8.3	23	8.0	9	3.1	289

Table 3. Responses to "Joint line agreements would be cancelled and the benefits of joint line service lost without rate bureaus".

Group	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree		Total Cases
	No.	%	No.	%	No.	%	No.	%	No.	%	
All shippers	99	24.7	187	46.7	43	10.7	56	14.0	15	3.7	400
Small shippers	34	34.6	45	45.5	10	10.1	10	10.1	0	0.0	99
Large shippers	61	21.3	137	47.7	31	10.8	44	15.3	14	4.9	287

Table 4. Responses to "Collective rate making is essential to the availability of joint line rates and services".

Group	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree		Total Cases
	No.	%	No.	%	No.	%	No.	%	No.	%	
All shippers	93	23.5	188	47.6	46	11.6	59	14.9	9	2.3	395
Small shippers	31	32.0	46	47.4	12	12.4	8	8.2	0	0.0	97
Large shippers	58	20.4	138	48.6	32	11.3	47	16.5	9	3.2	284

Table 5. Responses to "Rate discrimination would occur without rate bureaus".

Group	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree		Total Cases
	No.	%	No.	%	No.	%	No.	%	No.	%	
All shippers	117	28.9	175	43.2	21	5.2	72	17.8	20	4.9	405
Small shippers	38	37.3	40	39.2	8	7.8	13	12.7	3	2.9	102
Large shippers	73	25.3	132	45.8	11	3.8	56	19.4	16	5.6	288

Table 6. Responses to "The rate bureau's activities assist in the prevention of rate discrimination".

Group	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree		Total Cases
	No.	%	No.	%	No.	%	No.	%	No.	%	
All shippers	88	21.8	222	55.0	25	6.2	52	12.9	17	4.2	404
Small shippers	29	28.4	57	55.9	5	4.9	8	7.8	3	2.9	102
Large shippers	54	18.8	157	54.7	19	6.6	43	15.0	14	4.9	287

NATURE AND EXTENT OF COMPETITION IN THE TRUCKING INDUSTRIES

Shippers were asked to indicate their levels of agreement with statements about competition and rate making. Tables 7 through 14 summarize these responses. Separate responses for each statement were requested for less-than-truckload (LTL) and truckload (TL) traffic.

Most shippers agree that significant rate and service competition exists for both LTL and TL freight as indicated in Tables 7 through 10. In nearly every case, small shippers agreed on this question more strongly than large shippers.

A great many shippers do not perceive the existence of rate differentials for differences in service. Thus, only 34.9 percent of the shippers agree that there are varying levels of LTL rates reflecting varying levels of LTL service. Only 46.4 percent of the shippers agreed with respect to TL rates and service and this indicates that variations in levels of service occur more frequently with TL rates than with LTL rates. The responses

varied significantly between large and small shippers for LTL traffic but not for TL traffic.

Shippers also feel there is difficulty in getting independent rates. As shown in Tables 13 and 14, the majority of all shipper respondents agreed that independent rates are difficult to obtain—47.2 percent strongly agreed or agreed that independent TL rates were difficult to obtain, and 64.2 percent strongly agreed or agreed that it was difficult to obtain independent LTL rates.

SUMMARY

There is significant controversy as to whether motor carrier rate bureaus should retain their antitrust immunity. Whether the activities performed by rate bureaus benefit the shipping public depends on whether such activities enhance the achievement of national transportation policy goals and to what degree this is offset by reduced competition. This paper analyzed survey responses that suggest the implicit trade-off between the costs and the benefits made by shippers. The

Table 7. Responses to "There is significant rate competition for less-than-truckload traffic".

Group	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree		Total Cases
	No.	%	No.	%	No.	%	No.	%	No.	%	
All shippers	63	16.1	186	47.4	28	7.1	92	23.5	23	5.9	392
Small shippers	24	24.7	43	44.3	7	7.2	22	22.7	1	1.0	97
Large shippers	38	13.6	135	48.2	19	6.8	67	23.9	21	7.5	280

Table 8. Responses to "There is significant rate competition for truckload traffic".

Group	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree		Total Cases
	No.	%	No.	%	No.	%	No.	%	No.	%	
All shippers	62	17.7	192	54.7	14	4.0	70	19.9	13	3.7	351
Small shippers	15	20.0	38	50.7	6	8.0	14	18.7	2	2.7	75
Large shippers	44	16.8	145	55.3	8	3.1	55	21.0	10	3.8	262

Table 9. Responses to "There is significant service competition for less-than-truckload traffic".

Group	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree		Total Cases
	No.	%	No.	%	No.	%	No.	%	No.	%	
All shippers	95	24.4	226	57.9	20	5.1	43	11.0	6	1.5	390
Small shippers	37	38.1	48	49.5	5	5.2	6	6.2	1	1.0	97
Large shippers	54	19.4	168	60.4	14	5.0	37	13.3	5	1.8	278

Table 10. Responses to "There is significant service competition for truckload traffic".

Group	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree		Total Cases
	No.	%	No.	%	No.	%	No.	%	No.	%	
All shippers	83	23.5	202	57.2	12	3.4	44	12.5	12	3.4	353
Small shippers	22	28.9	42	55.3	6	7.9	5	6.6	1	1.3	76
Large shippers	57	21.7	153	58.2	6	2.3	38	14.4	9	3.4	263

Table 11. Responses to "Different rates reflecting different levels of service exist for less-than-truckload traffic".

Group	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree		Total Cases
	No.	%	No.	%	No.	%	No.	%	No.	%	
All shippers	14	3.8	116	31.1	65	17.4	149	39.9	29	7.8	373
Small shippers	3	3.3	30	33.0	19	20.9	34	37.4	5	5.5	91
Large shippers	9	3.3	85	31.6	39	14.5	113	42.0	28	8.6	269

Table 12. Responses to "Different rates reflecting different levels of service exist for truckload traffic".

Group	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree		Total Cases
	No.	%	No.	%	No.	%	No.	%	No.	%	
All shippers	27	7.9	132	38.5	45	13.1	112	32.7	27	7.9	343
Small shippers	3	4.3	22	31.9	13	18.6	26	37.7	5	7.2	69
Large shippers	21	8.0	106	40.6	27	10.3	86	33.0	21	8.0	261

Table 13. Responses to "Independent rates are difficult to get for less-than-truckload traffic".

Group	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree		Total Cases
	No.	%	No.	%	No.	%	No.	%	No.	%	
All shippers	77	20.4	166	44.0	43	11.4	73	19.4	18	4.8	377
Small shippers	19	20.7	40	43.5	15	16.3	15	16.3	3	3.3	92
Large shippers	59	21.0	118	43.4	28	10.3	55	20.2	14	5.1	272

Table 14. Responses to "Independent rates are difficult to get for truckload traffic".

Group	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree		Total Cases
	No.	%	No.	%	No.	%	No.	%	No.	%	
All shippers	37	10.8	125	36.4	38	11.1	117	34.1	26	7.6	343
Small shippers	14	19.4	27	37.5	13	18.1	15	20.8	3	4.2	72
Large shippers	22	8.5	93	35.9	25	9.7	97	37.5	22	8.5	259

survey was made in the context of the continuation of present ICC regulation of rates and entry.

The responses indicate that the majority of the shippers perceive the rate bureau as critical to preserving rate stability, maintaining joint line rates and services, and preventing rate discrimination. These are all widely recognized goals of national transportation policy.

Theoretically, any collusive structure, i.e., the rate bureau cartel, will lead to noncompetitive performance and conduct in the form of decreased rate or service competition or both. However, a majority of the shippers agree that significant rate and service competition exists in both the LTL and TL freight markets. Based on these responses, the majority of the responding shippers feel that rate bureaus do provide essential benefits without seriously reducing competition.

The responses do not suggest that the procedures and organization of the rate bureaus are perfect. The shipper responses indicate that more rate innovation and easier independent rate making is desirable, but it appears that most shippers would prefer these changes under the present framework of rate regulation. It should be noted that commensurate changes in the ICC's procedures are necessary too. In the case of more rate and service options, the ICC will have to modify its rigid costing procedures to reflect costs of different services and service levels in order for carriers and the rate bureaus to legally respond.

The frequency and degree of independent action and bureau protests have been documented elsewhere, and the impact on competition is subject to considerable debate (9). It is notable that the majority of shipper respondents agree that significant rate competition exists and, at the same time, agree that independent rates are difficult to obtain.

It is frequently asserted that rate bureau protest of independently filed rates effectively limits rate competition. A plausible explanation for this inconsistency is that independent action is only one form of rate competition. Rate actions made through rate bureau procedures are a form of rate competition among bureau carriers as well as between bureau and nonbureau carriers. Shippers may be satisfied with overall rate competition resulting from both independent and nonindependently filed rates.

The responses verify the notion that the intensity of competition differs between the LTL and TL markets. The respondents indicate that there is less rate competition, fewer rate and service combinations, and greater difficulty in getting independently filed rates for LTL traffic than for TL traffic. However, it is not clear that the existence of rate bureaus is the cause of this difference. It is well recognized that tendencies toward industry concentration are more evident in the LTL segment than in the TL segment of trucking (10).

Finally, the responses suggest that small shippers have different attitudes and perceptions than large shippers though these differences are a matter of degree rather than of conflict. The majority of both the small and large shippers agrees that rate bureaus perform

necessary functions, but generally a larger percentage of small shippers agree and they agree more strongly. Responses indicate that relatively fewer small shippers feel that they can assure themselves of the present level of rate stability and nondiscriminatory rates when compared to large shippers. In light of the ICC's concern for the protection of small shippers, serious consideration and investigation of the role of the rate bureau in this process are warranted.

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