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Observations of Unregulated Transport Service in Honduras

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This paper presents statistical and substantive observations of the growth of freight service in a developing country that has no significant government regulation. These observations are then used to make some comparisons with U.S. regulatory policy. From November 1975 to May 1978, the authors served as advisers to the Director General of Transport of the government of Honduras. The data and observations used in the paper are derived from various surveys covering a broad spectrum of transport operators throughout Honduras. Where statistics are unavailable, the discussion is based on the authors' personal observations. In Honduras, a highway-oriented economy, transport services are developing through the initiatives of a large number of individual owner-operators, loosely organized cooperatives, and a small number of multivehicle companies. As the paved highway network is being completed, transport service is growing and the level of service is improving with little, if any, government involvement. Market-determined freight rates generally reflect the costs of providing the service and vary reasonably with highway conditions and fluctuating seasonal demands. The unregulated trucking industry has successfully met the rapidly changing needs of the Honduran economy. Although the government maintains broad regulatory powers in reserve, in practice it has minimized political intervention in the economic marketplace. The Hondurans have rejected many U.S.-style regulatory objectives and have instituted nonregulatory measures to meet valid objectives.

Although primarily concerned with the evolution from nonregulation to some regulation in a small country, this paper also comments on how these findings relate to the debate over transport deregulation in the United States. As a backdrop for this discussion, it is useful to summarize regulatory objectives as they have evolved in North America and northern Europe.

The principal regulatory objectives that have evolved in the United States, based primarily on Anglo-Saxon legal concepts, include the following:

1. Equity in the treatment of the public, i.e., the same rates for apparently similar services, and uniform rules (in published tariffs) for carrier-shipper relationships;
2. Maintenance of an "orderly market" in order to avoid the excesses of competition—benefiting the public with stability and quality (or at least uniformity) of services while assuring "honest, efficient and well-managed carriers" a reasonable return on investment and relief from "cutthroat" competition.
3. Providing assured service at fixed rates for all members of the shipping and traveling public, no matter where they are located or how infrequently they use the service, through development of a doctrine of common carrier responsibility defined and enforced by the government; and
4. Closely related to the equity issue, the protection of users (the public) from paying excessive profits to monopolists or semimonopolists.

Other countries outside the North American and northern European areas have developed indigenous (as differentiated from imported) regulations with three objectives:

1. Obtain greater stability in provision and pricing of services (no apparent cases outside Europe and ex-British colonies);
2. Protect state railways from highway competition (also an objective in the United Kingdom at one period and still so in former dependencies); and
3. Allocate entrepreneurial highway transport operations to selected classes or ethnic groups (ethnic Malays in Malaysia, army officers in Spain).

A key difference in most of these other countries, even those giving great weight to stability in pricing and providing services, has been the little emphasis placed on regulation attempting to specify precise rates, routes, and commodities.

During the debate over the pros and cons of deregulating the truck and railroad industries in the United States, one of the major drawbacks has been the lack of data and real-world examples that might lend credence to the theoretical projections of what would occur under different deregulatory schemes. Indeed, it is difficult to find a country that has not practiced some form of government intervention in the economics of the transport service sector, thus making international comparisons subject to a long list of limitations and caveats.

The following case study, an observation of unregulated transport in Honduras, is not devoid of such caveats. The geographic, economic, and cultural differences and the lack of intermodal competition limit the degree to which direct comparisons with the United States can be made. What is unique about the Honduran experience and pertinent to the discussion of freight regulation, however, is that it is a truly unregulated system. It provides an opportunity to strip away the multiple layers of regulatory policy and to observe the open exchange of transport supply and demand as described in microeconomic theory. The case study provides an example of a nation that rejected the validity of many of the objectives of regulatory policy adopted by the United States and, in many instances, chose different means other than transport regulation to meet what they considered to be valid objectives.

This paper describes the development of the Honduran trucking industry in each of the major commodity sectors. The government's response to actual or supposed problems is presented and the most significant lessons for the United States are discussed.

OVERVIEW OF HONDURAN ECONOMY AND TRANSPORT DEVELOPMENT

Honduras, with a population of less than 3 million and an area of more than 112 000 km^2 (43 000 $miles^2$) is one of the lesser developed countries of Central America. Since the early 1900s, the Honduran economy has centered on the development of the Atlantic Coast, where North American banana companies were cultivating and exporting bananas and other types of tropical fruits. Over the last 15 years, however, the country has expanded its range of exports and currently is experiencing unprecedented economic growth.

As the transport network expanded and other productive regions of Honduras gained access to international markets, the export of lumber, coffee, tobacco, meat, and sugar increased. This broadening of export commodities was a crucial factor in the economic recovery of the country after the north coast was devastated by Hurricane Fifi in 1974. With fertile valleys that have yet to reach their productive capacity and relative political stability, Honduras has been successfully attracting large amounts of investment capital from international lending agencies and from other nations.

The characteristics of Honduran production and the country's topography have contributed to the importance of highways and the trucking industry in the domestic movement of the nation's goods. Honduras, the most mountainous country of Central America, is noted for its rugged terrain; it has had to overcome many challenges in the development of its transportation infrastructure. With its production centers well dispersed in numerous valleys throughout the country and with strong seasonal fluctuations in production, Honduras needed a transport mode that was efficient in handling small loads of low-value commodities, a mode that could easily be transferred among geographic regions to offset seasonal highs and lows and that could handle the rough terrain. Therefore, the government concentrated on developing a road network that was followed by the growth of the trucking industry. Only along the north coast, where large-scale banana plantations and level terrain made it feasible, were rail lines constructed for internal transport.

The primary transport network in Honduras is a recent development. The banana companies introduced the first road-building equipment, which was used to construct feeder roads from the banana plantations to the ports of Honduras. The first paved road was the Pan American Highway, built across the southern portion of Honduras after World War II; it has little effect on internal Honduran transport. It was not until 1958 that the government began a comprehensive program to construct modern highways. This program has resulted in the present primary system scheduled to be completed within the next few years.

The road network connects the production centers of the country with the main urban centers—Tegucigalpa (population, 300 000) and San Pedro Sula (population, 150 000)—and with the centers for international trade, including the ports (especially Puerto Cortes on the Atlantic coast) and the Central American Highway network. As the primary system nears completion, the emphasis is expected to shift toward building and improving penetration and feeder roads from the farming areas to regional market centers.

The development of transport service in Honduras, both passenger and freight service, has been largely due to the efforts of individual owner-drivers, many of whom were farmers from outlying rural areas. Due to an unusually good harvest during a year of high market prices (such as coffee in 1976), many of these farmers managed to obtain a loan for a bus or a small truck and began serving their immediate neighbors to and from the regional market centers. With the extension of the road network and the concomitant economic growth, more Hondurans were financially able to enter this industry and the number of independent operators proliferated. Large-scale freight transport service did develop around the specialized needs of specific sectors within the economy such as mining, cement, and petroleum; but most of the nation's freight is still handled by small operators with less than three vehicles per firm.

As a result of this individualistic type of development, the country's transport sector consists of a multitude of diverse types of transport organizations, which operate a wide range of vehicles imported from all parts of the world with varying capacities and ages. In spite of this seemingly anarchic situation, the development of transport service has followed a logical pattern, based on the principles of open competition without government economic regulation. It has resulted in a relatively high level of service throughout the country for both passengers and freight at apparently low fares and rates even by developing-country standards.

Most of the Honduran truck fleet of about 13 000 vehicles is comprised of two-axle, six-wheel, single-unit trucks (C-2) with a tare weight of 5200 kg (11 465 lb) and a gross permitted weight of 12 000 kg (26 455 lb). Their popularity is due principally to their relatively low price ($15 000 excluding interest in 1977), which, when coupled with interest rates of around 15 percent, represents the maximum amount affordable by typical owner-drivers. The other popular truck type is a three-axle, 10-wheel, single-unit truck (C-3) with a tare weight of 7800 kg (17 195 lb) and a gross permitted weight of 18 500 kg (39 685 lb). Together, single-unit vehicles comprise about 94 percent of all trucks.

The age distribution of the fleet, based on a review of registered trucks in 1974, shows that most trucks are less than 10 years old, with a large proportion of vehicles manufactured in 1970 and 1973. More recent surveys (1977-1978) revealed that the single-unit, two-axle trucks tended to be imported new from Japan, with an apparent wave of imports in 1974 and 1975. Most vehicles are underutilized, accumulating only 50-55 000 km (30-33 600 miles) annually, which indicates that there is an excess of capacity during certain seasons of the year, especially in the agricultural production centers where such vehicles are dominant.

Tractor-trailer combinations, mainly three-axle tractors pulling two-axle trailers (T3-S2), represent the remaining 6 percent of truck types purchased. These vehicles are imported used from the United States and were manufactured in 1967-1969. Because they are primarily operated by larger transport cooperatives and companies, their utilization is much higher, averaging around 80 000 km (49 700 miles) annually.

Another aspect of Honduran truck service that is important in comparing the U.S. situation is that most operations are full truckload (TL) service. The low income per capita and the geographic concentration of the consumption centers limit the need for less-than-truckload (LTL) services.

TRANSPORT SERVICE BY MAJOR COMMODITY GROUP

The organization of Honduran trucking and the effects of regulation are best observed through a discussion of transport service for various commodities.

Agricultural Products

The transport of agricultural products represented the beginning for most transport operators. Often the operation began with one person in a village who owned a pickup truck and agreed to carry his neighbors' produce to market. Today, this type of service is still provided, but the prevalent operation is one in which a "transportista", or transport agent, located in the local market center, has two or three vehicles to bring in produce from the tributary farms. The transportista usually buys the produce at the farmgate, transports it to the local or regional market, and then sells it. The farmers refer to this agent as an "intermediario", or intermediary, and the difference between the market price and the farmgate price is the fee charged for transportation and marketing.

Although there is very little information on the operations of the intermediarios, field interviews with farmers and transport operators suggest that the fluctuation of farmgate prices, and thus transport rates, is related to the accessibility of the farm. Where farms are isolated, there is little or no competition and the farmer must sell his produce at depressed prices to the first truck that arrives. In areas where access is easier, the competition between intermediarios drives up farmgate prices. The intermediario, meanwhile, receives a differential for serving higher-cost inaccessible areas. Some argue that the differential is exorbitant.

More industrialized agriculture such as tobacco and cotton is served by transportistas who are paid only for carrying the cargo. Again, the service is dominated by owner-driver operations with the exception of sugar, which is handled by a cooperative.

In general, the truckers refer to the transporting of agricultural goods as their most lucrative service. The agricultural demand for transportation usually peaks during a few specific months of the year. For example, in Danli, the harvesting of rice, coffee, tobacco, and cotton will all occur at about the same time. Thus, there is a temporary shortage of truck capacity from January to March. Tariffs rise and the farmers, unable to store their produce, pay premium prices. In the other months, however, there is an actual excess of trucking capacity and tariffs fall, often to the level of out-of-pocket costs. The unregulated free market system provides adequate truck capacity, even for the peaks, at rates that are roughly equivalent to the amount of stress a shipper places on the system; thus, peak-period users pay the costs of unused capacity during the off season.

Thus, an extensive flexible for-hire truck service has been stimulated by the agricultural development of the country. The problems, some actual and others supposed, that have arisen and have generated a demand for regulation in that sector are that

1. The ease of entry and the seemingly lucrative rates in the peak season have attracted too many inexperienced operators who misjudge the complex seasonal fluctuations and who fail after one or two years (no statistics are available yet on business failures in trucking, and there has been no apparent effect on service from such instability), and
2. Farmers in outlying areas receive depressed prices from intermediarios that, in turn, restrict production.

Lumber

There are more than 110 sawmills located throughout Honduras. Some are located near the urban centers and others are located nearer to the logging areas. The government is directly involved in the lumber industry. As the owner of the nation's forest reserves, the government agency—la Corporacion Hondurena Para El Desarrollo Forestal (COHDEFOR)—issues permits to mill owners to buy and cut the trees in specific areas. After processing the lumber, the mill owners either sell to domestic consumers or to the government marketing agency (also COHDEFOR) for export. By setting the port price for lumber that it buys for export, the government has, in effect, set the price of transport to the port that is implicitly included.

Transport operations in the lumber industry are dominated by independent owner-operators in for-hire service, often the same ones who are serving nearby agricultural production centers. The carrying of logs from the forests to the mills is handled by various owner-drivers who use older two- and three-axle trucks to maneuver through the rugged terrain to and from the forests.

From the mill to the market centers, whether the ports or main cities, the route is a mixture of earth, gravel, and paved highways. Approximately 56 percent of the trucks handling this traffic are two-axle and 20 percent are three-axle vehicles; the rest are tractor-trailer combinations.

Unlike the farmers, the mill owners can schedule their shipments around the peak agricultural season so that they hire truck operators when there is an excess of carrying capacity. As a result, the tariffs are very low and the trucker, in order to cover out-of-pocket costs, has had to critically overload the vehicle. These low tariffs have also stifled the use of private transport by mill operators; under different tariff situations this would be a logical transport alternative.

Besides the self-serving complaint by sawmill operators that they cannot find sufficient transport capacity at their regular rates during the agricultural peak season, several serious problems have arisen requiring governmental attention:

1. Low tariffs have resulted in severe overloading of single-unit trucks; 40 percent of all trucks on the

road were (prior to 1977) more than 15 percent overloaded with a high proportion of lumber truckers carrying 30-40 percent more than their vehicles' design loads.

2. Overloaded trucks were destroying newly paved highways and were a safety hazard.

Petroleum and Cement Products

Petroleum and cement products are grouped together in this discussion because they exhibit similar transport characteristics in Honduras. Both commodities are produced at a single facility that makes them easy political targets for organized truckers; both require specialized larger-capacity vehicles rather than the 7-t capacity truck in for-hire service. Also, both commodities are crucial in the day-to-day functioning of the economy. Obviously, without petroleum all commerce is affected. Less obvious is the fact that without cement all major development projects experience costly delays. Another similarity between cement and petroleum is that the government, through the Ministry of the Economy, fixes the price of both commodities. This action implies the fixing of transport tariffs as well.

In the case of petroleum, there are four distributors and one refinery. The refinery is foreign owned and only one of the distributors is locally owned with its own brand name. Traditionally the distributors depended on private haulage using their own vehicles for most operations and contract operators for routes where demand was low, irregular, or where road conditions were poor. As the roadway network was improved, the distributors attempted to extend the use of their own vehicles rather than contract carriers.

As for the cement plant, transport is handled on a contract basis with one cooperative, many of whose vehicles are financed through the locally owned cement company. This cooperative has been able to easily restrict the entry of other operators, mainly due to the facts that no one else could offer adequate vehicles, and an unwritten code exists between transportistas to limit competition, at least in this sector.

The problems that have arisen from this situation pose a significant challenge to the government in its attempt to minimize political intervention in transport operations. Local truckers are seeking limitations, if not total outlawing, of private carriage, especially in the case of foreign-owned companies. As an interim measure, they are also seeking a minimum amount of reserved petroleum movements for local truckers. Anticompetitive actions by strong trucking cooperatives threaten the normal and efficient flow of nationally critical commodities.

International Cargo Movements

International cargo is handled by a wide variety of truck operators. The dominant type of organization is the cooperative. In Honduras a transport cooperative is a loose federation of individuals, each of whom owns at least one truck. Usually each member maintains his own vehicle and manages his own income. The cooperative serves as a means of obtaining cargo, like a clearinghouse, and facilitates purchasing spare parts in bulk and setting up vehicle financing. Also, it handles the operators' administrative paperwork. Rates, however, are not necessarily fixed by the cooperative. In international operations there are as many as 35 members in one organization.

Prior to 1977, there was very little information collected on Honduran international truckers, and the reported problems described here were typically based on the opinions of various interested parties and on limited surveys. Progressive government and quasi-government agencies feared that local operators would not be able to meet the rapidly changing needs of the economy as development advanced. The Empresa Nacional Portuaria, the Honduran port authority, was installing a container crane at Puerto Cortes and feared that foreign truckers would reap the benefits of overland transport that would be generated by increased roll on-roll off (RO-RO) and container movements. The World Bank was similarly fearful and was investigating mixed governmental and private investment schemes. Local truckers complained that restrictions imposed by neighboring countries on Honduran operators without retaliatory restrictions by Honduras were promoting foreign trucking and that local truckers were not capturing their fair share of the traffic.

HONDURAN GOVERNMENT RESPONSE

The government's response to each of the above problems was a controlled incremental approach to economic regulation. In February 1976, the omnibus Ground Transport Law was signed. It gave the Direccion General de Transporte (DGT) broad regulatory powers over all passenger and freight transport on the nation's urban and intercity roads. The reasoning behind the government's decision can only be hypothesized because of the large number of participants and motives involved. A basic psychological motive behind the legislation appears to have been the fact that economic transport regulation is associated with highly developed economies, a sign of progress because all developed countries were thought to have intricate regulatory policies.

There were, of course, more practical motives by each of the participants in the drafting of the legislation. Both bus and truck operators were seeking to limit competition through entry and capacity restrictions. Transport users and government officials, however, wanted to stabilize the sector and guarantee the availability of sufficient and adequate service to meet the country's development needs.

Although on paper the DGT's authority is sweeping, in actual practice the effective implementation of the Ground Transport Law is restricted by limited personnel and funding available to the agency. With these limitations the Director General of Transport set out to verify and resolve the transport problems in each of the commodity sectors.

The basic restriction imposed by the government is that all public transport service be provided by Honduran firms in which Hondurans have the controlling share of the capital. Furthermore, the law requires that all public, for-hire, and contract operators register with the DGT and request a "Permiso de Explotacion"; this gives them the right to operate a trucking firm anywhere in the country, involving any type of commodity over any route for whatever price is negotiated between parties. This permit is good for five years and costs the operator one percent of the value of his vehicle (original purchase price) to a limit of $1250.

In addition, the operator must request a "Permiso de Operacion", which allows hime to use a specific vehicle for his operation. Each vehicle needs a separate permit, valid for one year and renewable on the satisfactory inspection of the vehicle.

Thus, through these two permits, the DGT has the power to limit both entry and capacity in trucking. The initial approach, however, in addition to the standard "grandfather" clause, has been to allow any Honduran operator to enter with whatever size vehicle as long as the registration fee is paid, the operator has no record of seriously abusing transport regulations, and the vehicle is in satisfactory condition.

In agricultural transport the government rejected the use of restrictive entry regulations to maintain an orderly market and minimize business failures. No major instability had been observed and the long-run adjustment of the marketplace was considered a more appropriate solution.

Field interviews showed that operators' gross income frequently just covers the operation of the vehicle, interest, and amortization with some amount for driving time. The owner-driver often receives no return on his investment and, moreover, does not receive compensation for time spent maintaining the vehicle. Recent tariff changes, however, show that the growing sophistication of the operators should slowly resolve this situation. The aggressive competition, which logically characterized the initial period after the improvement of the road network, should subside as more realistic estimates are made of the financial returns in trucking.

As for subsidizing service to outlying areas through rate fixing and cross-subsidization, a typical objective of western regulation, the initial decision has been to leave rate negotiation open. Fixing rates would be nearly impossible to implement and enforce and could distort development by fostering increased production in areas where production would be less efficient. Instead, selected farm-to-market feeder road projects based on a national development plan should be implemented that will stimulate more transport service and competition, resulting in better farmgate prices and more production where it is desirable.

The problems arising from lumber required more immediate direct action, and the government responded by imposing weight limits on paved highways and installing 13 weighing stations for enforcement. Lumber truckers responded with a two-week national strike demanding that the government forestry agency raise lumber prices at the export yards; this increase would be passed along to the truckers via the sawmill operators to compensate for the loss of 30-40 percent of revenues per truckload.

The DGT entered the dispute as a mediator between the government forestry agency, the truckers, and the mill owners. An increase in the price of lumber was negotiated without specifically fixing truck tariffs. Although the truckers' original demands were exorbitant, more than recouping projected losses, sawmill operators countered by importing tractor-trailers for private carriage. As a result the truckers tempered their demands to more competitive levels.

Furthermore, weight limits reduced the proportion of trucks that were 15 percent or more overloaded from 40 to 3 percent and fostered a change in the makeup of the fleet so that the importation of two-axle, single-unit trucks came to a standstill. Instead, operators purchased more efficient tractor-trailers, pooling their resources in newly formed cooperatives of former independent owner-operators.

In the case of petroleum and cement transport, the DGT again acted as a mediator without itself fixing tariffs or for-hire quotas. The government, faced with poor antitrust laws and the political difficulty of allowing private transport by foreign-controlled companies, has not resolved the potential crisis of anticompetitive actions in this sector. Private transport may be the only means of countering monopolist rates and maintaining efficient service without direct government intervention. The refinery has attempted to form a subsidiary Honduran transport firm as a contract carrier. The future direction of the government is still uncertain.

The last sector that the DGT analyzed for possible regulatory intervention was international trucking. It is natural for a country to want to protect and encourage its own operators, especially if it believes that other countries' restrictions are putting them at a disadvantage. Fortunately, prior to imposing retaliatory restrictions in response to reported, but never verified, restrictions by neighboring nations, the DGT conducted surveys to determine if Honduran truckers were not carrying their share of the traffic between Honduras and the other countries.

Statistics that were compiled at two different periods of the year at weighing stations near the borders showed clearly that the Hondurans had captured a considerable share of international traffic. A review of license plates in one month revealed that there were 460 Honduran-loaded trucks moving between Honduras and Nicaragua compared to 200 Nicaraguan-loaded vehicles. Between Guatemala and Honduras there were 300 Honduran-loaded trucks compared to 330 Guatemalan vehicles. Weight figures showed similar results. On the basis of this evidence the Director General refused to impose new limitations that could inevitably hurt the seemingly strong competitive position of Honduran operators if other countries take retaliatory measures.

In addition, the data illustrated the fact that there was a greater use of larger capacity vehicles by Hondurans in international movements. More than 50 percent of the Honduran trucks were tractor-trailer combinations. The resilience of the trucking sector and its ability to respond to new demands was confirmed when the national port authority installed a container crane at Puerto Cortes. Contrary to the initial fears that there would be insufficient capacity to handle containers and RO-RO trailers, agents at the port were surprised to find a ready supply of adequate vehicles to meet the heavy increase in demand.

COMMENTS AND COMPARISONS

The first steps to regulate intercity trucking in Honduras are being taken at a relatively strong period in the evolution of the economy. As important users of the newly created, all-weather highway network, the truck owners have made an important contribution to the recent and soundly based expansion of the economy. The problem is that "business has been too good." Everybody wants in and a surplus of two-axle trucks has resulted.

When national regulation was adopted in the United States, trucking was in a relatively earlier stage of development than at the present time in Honduras, although in the eastern part of the country highways were more extensively developed than they were in Honduras in 1975-1976. The owner-driver pattern was quite strong due to the depression-era search for work.

The expansion of interstate commerce regulation in 1935 occurred at a time of severe economic depression, deflation, and declining productivity—the reverse of the Honduran case. In the United States, trucking (spasmodically regulated by the states) was passing through a period of operator instability, poor maintenance, overloading, and harsh price competition. It is clear in hindsight that this pattern of events led to the excessive protective and detailed regulation in the United States, i.e., accepting temporary conditions as the norm. This political action is only now being subject to question and significant revisions.

There are some important differences between the United States and Honduran settings under which regulation has been instituted. In Honduras, truck-rail competition has never been a problem except for the short stretch between San Pedro Sula and Puerto Cortes. Truck rates have at all times been set from some notion of cost rather than value of service or rates of another mode, a healthier base from which to build regulatory policy.

Furthermore, LTL service is of much less concern in Honduras as opposed to the United States, where LTL movements are a significant portion of all truck movements. This has led to the U.S. emphasis, perhaps exaggerated from the perspective of the European experience, on the tight regulation of common carrier rights and responsibilities.

The pertinent comparisons that follow revolve around four of the typical objectives of U.S. regulatory policy in transport described earlier. In each case the Hondurans either rejected the validity of the objective or selected other means for satisfying the objectives, resulting in a much more limited regulatory structure as compared with the U.S. complex apparatus.

The Hondurans have rejected the need to fix rates, routes, and commodities to preserve equity in carrier-shipper relationships. The resultant fluctuation in seasonal tariffs that could be considered discriminatory by U.S. standards has encouraged the efficient distribution and level of truck capacity with shippers paying rates more closely related to the costs they impose on the system. In addition, shippers are given an incentive to schedule their movements around the peaks that reduce distortion in defining capacity requirements. With few, if any, economies of scale in this mostly TL service, healthy competition between a large number of operators has been generally maintained.

The need to maintain an orderly market in trucking and avoid the excesses of competition has also been rejected by the Honduran government. The high turnover of operators in Honduras is due more to the lack of basic education and business experience rather than the rigors of open competition and should be reduced as the educational standards and business experience of the country are improved. In fact, trucking in such a country plays a major role in entrepreneurial education.

Similarly, the Hondurans rejected the tight regulation of common carrier responsibilities and cross-subsidization as a means of assuring service to outlying areas. Setting rates below costs for such service could have distorted the economic development pattern of the country. By allowing rates to be flexible, service did reach these areas as long as the shippers were willing to pay full costs. Rate reductions and improved service were achieved through indirect means by improving the feeder roads and directing agricultural development funding to selected areas.

U.S. legal, not economic, doctrines have, in effect, produced a de facto policy of providing a basic service at a uniform price to anyone living and producing anywhere. This results in subsidizing those in high-cost locations to reach the markets through the excessive freight rates paid by those with low costs for reaching the same markets. This violates market economic precepts and shows that the notion of regulation substituting for marketplace is quickly corrupted in practice. The spread of private and exempt transportation in the United States, which tends to be much more closely related to the vehicular costs of providing the service, is gradually undermining the regulator's capability to maintain historiopolitically based regional relationships that have no real economic foundation.

Protection against monopolist pricing, however, was considered a valid objective that required regulatory policy. Instead of fixing rates across the board, the government will allow private trucking to increase, where politically feasible. Where private trucking is not feasible, the government has acted as a mediator. In the future this may lead to rate setting but only in selected situations. This type of regulation "by exception" is an interesting concept that is receiving more attention in the U.S. deregulation debate. Administration proposals for handling railroad rates in monopolist cases under deregulation is one example of regulation by exception. The test in the future will be whether a policy with such discretionary flexibility can be maintained without being corrupted and diverted from its original intent.

One regulatory objective that is important in developing countries such as Honduras but unnecessary in the United States is the control of capacity. Excess capacity in countries that must import vehicles and parts can cause a significant drain on foreign exchange reserves. In Honduras the truck sector does not exhibit a need for such regulation at the moment. Intercity bus operations, however, have resulted in extreme overcapacity and underutilization of imported vehicles and is now subject to close regulatory scrutiny.

CONCLUSION

As has been shown in this paper, the development of Honduran trucking has historically been left to the stimuli of largely open competition. This competition has resulted in a large number of operators who are steadily improving the quality of service to meet the growing needs of a rapidly changing economy. Under pressure from various interest groups, the government passed a Ground Transport Law with broad regulatory powers. In implementing the law and studying the transport service sector more closely, however, the government decided to either reject typical U.S. objectives of regulatory policy or to find alternative means of reaching those objectives without distorting the competitive transport market.

Although the context of many of the reported observations seems very remote from U.S. experience, international boundaries do not repeal the laws of economics. Our context is so complex and so "covered", due to massive gray-area services and trip-leasing operations by authorized common carriers, it is very difficult to be certain how the system really works or to identify the action of the market on prices and services. This is why it is beneficial to analysts and practitioners to observe conditions in simpler, uncontrolled economies.

Perhaps the most distinct difference in the United States and Honduran perspectives is that, from the U.S. point of view, Honduran freight rates may accord with the economics of trucking but not with equity, a political concept. It certainly seems ironic that what is referred to in the United States as economic regulation is not economic in any true sense; it is legal and political. The lack in foreign countries of this equitable nondiscriminatory pricing, for many years a cause of concern in the United States, presents the authors of this paper with no problems as economists. In the course of working in 28 other countries, almost all with less motor carrier regulation than the United States, we do not see end results from discriminatory pricing that are economically unacceptable. The purpose of market-set prices is, in fact, to discriminate between the various producer-plus-transport cost levels to be found among suppliers to any large market.

In one way, however, the two countries appear to be headed in the same direction. Honduras has embraced the policy of regulation by exception, entering the market only in specific cases where distortions have occurred. The administration's latest deregulatory schemes in the United States have suggested a similar approach.

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