

# Consequences of Regulatory Reform on the Owner-Operator Segment

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Since owner-operators provide approximately 25-40 percent of the intercity truck transportation in the United States, any major disruptions to this sector that result from deregulation would seriously impair motor carrier operations. As a result, informed policy decisions about deregulation must assess its impact on owner-operators. This paper presents four alternative scenarios for the owner-operator sector in a deregulated environment. Data gathered from a two-year study of owner-operators are then used to assess the likelihood of occurrence for each scenario. The four scenarios range from a prediction of cutthroat competition among owner-operators to one of relative stability and increased earnings. Due to the already depressed level of owner-operator earnings, their current high turnover rates, and their increased options that stem from deregulation, it is unlikely that the former prediction will be realized. A more likely possibility is that deregulation will benefit the owner-operators. However, their increased benefits will be in direct proportion to their bargaining power. Multiple-vehicle fleet owners will have more bargaining power in dealing with carriers, shippers, or brokers and, as a result, will benefit more from deregulation than will the single-vehicle owner.

The nation is in the midst of a thorough review of current regulatory policy toward motor carriers. Various proposals have been introduced in Congress that provide for substantial regulatory change that involves either the total motor carrier industry or selected segments of it. The truckload segment of the industry, in which owner-operators are principally involved, has received particular attention in most of the proposals. This segment of the industry focuses on the movement of commodities in full-truckload lots between shippers and receivers. This paper addresses the impact on owner-operators of a proposal to remove both entry and pricing controls from the truckload segment of the motor carrier industry.

Specifically, this paper presents four alternative scenarios for owner-operator behavior under deregulation. Next, relevant information from recent owner-operator studies is detailed, since it is the thesis of this paper that, in order to understand owner-operator behavior under deregulation, it is critical to define it under the current regulatory climate. Last, data from the owner-operator studies are directly related to each of the scenarios as a guide to making an informed judgment about which course of events is most likely to occur under deregulation.

## SCENARIOS FOR OWNER-OPERATORS UNDER DEREGULATION

The impact that deregulation will have on the owner-operator sector of the motor carrier industry is a critical aspect of the policy review of motor carrier regulation, since owner-operators provide approximately 25-40 percent of the intercity truck transportation in the United States (1). Thus, any major disruptions to this sector brought about by deregulation would seriously impair the motor carrier industry. As a result, policymakers should be aware of the potential consequences of deregulation on the owner-operator sector.

This section presents four scenarios for owner-operator behavior under deregulation. In the next section, data from a recent owner-operator study are presented as a basis for making a more-informed judgment about which of the scenarios is most likely to occur under deregulation.

### Scenario 1

Scenario 1 predicts that cutthroat competition will prevail among owner-operators in the aftermath of deregulation. The reasoning behind this outlook is that owner-operators tend to be unsophisticated entrepreneurs, unaware of their costs of doing business. As a result, they currently suffer from low earnings, and a high percentage of them experience business failure each year. However, there are some prevailing standards that govern the level of compensation paid by carriers regulated by the Interstate Commerce Commission (ICC) to their owner-operators under lease arrangements (usually a specified percentage of the total freight revenue charged to the shipper) that have proved to be sufficient for many owner-operators to continue in business.

Deregulation, in contrast, will exacerbate the existing plight of owner-operators by allowing them to compete directly against one another and against motor carrier firms for the shippers' business by eliminating the requirement of obtaining an operating certificate from the ICC before services are provided. Unaware of their costs of operation and no longer under a prevailing standard for their level of compensation, owner-operators will have a tendency, especially in direct negotiations with shippers, to bid down their revenue to levels that will make it impossible for them to meet expenses in the long term. The result, of course, will be a substantial acceleration in the owner-operator turnover rate and greater fluctuations in and concern about their supply.

According to the logic of this scenario, then, shippers will experience varying transportation costs, depending on availability of owner-operators, and an erratic quality of service. The owner-operator segment will suffer irreparable harm as a consequence of cutthroat competition.

### Scenario 2

In this account, owner-operators will use the improved bargaining position that results from deregulation to increase their share of the total revenue received from shippers. This scenario is in direct contrast to the first one. It argues that deregulation will improve the bargaining position of owner-operators by giving them the option of dealing directly with shippers for business rather than by requiring them to operate under lease to a motor carrier that possesses the required ICC operating certificate.

However, if they use their new option to engage in competition with one another in direct negotiations with shippers, the potential exists for shippers to obtain rate concessions from the owner-operators and to decrease their freight bills. Although owner-operators who engage in such direct negotiations would not have to share their revenue with a motor carrier, they would be receiving 100 percent of a smaller total and would likely find little or no improvement in their revenue situation.

However, according to this scenario,

owner-operators will recognize such potential dangers and will find it in their best interests to continue to work through motor carriers rather than to approach shippers directly. Nevertheless, the owner-operators will use the new option that results from deregulation to demand from the carriers a greater share of the revenue than they now receive. It is anticipated that owner-operators who possess a large number of vehicles will have more bargaining power with the carrier in such situations than will owner-operators who have a single vehicle. Such differences in bargaining power should be reflected in a higher compensation for owner-operators who have more than one truck or tractor (multiple-vehicle fleets).

This scenario, unlike the first one, does not foresee that wide fluctuations in rates to shippers or an erratic quality of service will stem from deregulation. Instead, it anticipates that, although rates paid by shippers will reflect only general inflationary trends, revenue to owner-operators will increase as a consequence of their improved bargaining position.

### Scenario 3

Scenario 3 projects that shippers will use the increased transport options that result from deregulation to lower their freight costs and simultaneously to augment the revenue of owner-operators. Shippers will have additional transport options as a consequence of deregulation because they will no longer be restricted to those carriers who possess ICC operating certificates.

According to this scenario, shippers will contact owner-operators directly and offer them greater compensation than they currently receive under lease arrangements with ICC-regulated carriers but not as much as shippers now pay the regulated carriers for transportation services rendered.

This scenario envisions that owner-operators and shippers will split in some fashion the portion of the total revenue that regulated carriers now receive under lease arrangements with owner-operators. The exact division of this revenue between the owner-operators and the shippers will be determined by the relative bargaining power of the respective groups. Again, as in scenario 2, it is anticipated that owner-operators who possess multiple-vehicle fleets will have greater bargaining power than will the owner-operator who has a single vehicle. Owner-operators with multiple-vehicle fleets can provide shippers with a greater portion of their total transportation requirements and assure a continuity in supply. As a consequence of these advantages, shippers may be willing to increase the compensation to owner-operators who have multiple-vehicle fleets.

The reasoning of this scenario is that shippers will be willing to pay owner-operators more than they now receive in order to guarantee stability in the supply of dependable owner-operators. In addition, their freight bill will be lower so long as increases in payments to owner-operators do not raise their total costs above the level currently paid to regulated carriers. Owner-operators will benefit from an increase in their revenues and from the stability that stems from their agreements with shippers.

Scenarios 2 and 3, then, anticipate stability under deregulation. Both scenarios envision an increase in revenues to owner-operators rather than a situation of great instability among owner-operators as predicted in scenario 1. Scenario 3, unlike scenario 2, anticipates that shippers and owner-operators will benefit from

deregulation, while the regulated carriers will bear the brunt of the readjustments.

### Scenario 4

Scenario 4 envisions that truck brokers, who now function primarily in arranging exempt loads for owner-operators, will assume a much greater role under deregulation. Under deregulation, truck brokers will no longer be restricted to the exempt-commodity sector because they lack the required ICC operating certificates for transporting regulated commodities; the broker will be able to contact shippers directly to arrange loads for owner-operators.

Since truck brokers in the exempt sector usually take a significantly smaller percentage of the total revenue from the owner-operator than do the regulated carriers, it is anticipated that owner-operators will be attracted to the arrangement of loads of previously regulated commodities by truck brokers so long as the brokers' charges do not rise to the level of those assessed currently by the regulated carriers. Again, the exact manner in which truck brokers and owner-operators split the percentage of revenue now deducted by regulated carriers from the owner-operators' pay will be determined by the respective bargaining power of the two groups. It is also expected that owner-operators who have multiple-vehicle fleets will have more bargaining power than will the owner-operator who has with a single vehicle.

Scenario 4 predicts stability in the aftermath of deregulation rather than the instability anticipated in scenario 1. It suggests that the major beneficiaries of deregulation will be the owner-operators (especially those who have multiple-vehicle fleets) and truck brokers. In contrast to scenario 3, it does not foresee that shippers will benefit from deregulation in the form of reduced rates.

Each scenario presented has made assumptions about owner-operator behavior under deregulation. It is the premise of this paper that such predictions would be more accurate if based on a knowledge of the actions of owner-operators in the current regulatory environment.

Fortunately, information about owner-operators has been enhanced as a result of a two-year study of their behavior conducted by researchers at the ICC. In the winter of 1978, approximately 500 owner-operators responded to questionnaires about their leasing arrangements with regulated carriers. One questionnaire concerned owner-operators under permanent leases to regulated carriers and one concerned those who were under trip leases to regulated carriers. [Under the terms of a permanent lease, owner-operators lease their equipment to a regulated carrier for at least 30 days; under the trip-lease terms, owner-operators arrange a one-way trip (only the return to their base of operations) with a regulated carrier.] One year later, ICC researchers requested the same owner-operators to respond to follow-up questionnaires that covered a wider range of subjects than the initial ones did; such issues as their revenues, costs, income, and methods of operation and equipment financing were included. The response rate to both surveys was exceptionally high. In the initial effort, the response rate from the permanent-lease sample was 88 percent and from the trip-lease sample, 74 percent. In the follow-up study, the response rate decreased by only 10 percent for each sample. These response rates were only achieved by a vigorous telephone follow-up to the initially mailed questionnaire (2,3).

In the section that follows, information from the ICC data base that is critical in making informed judgments about likely owner-operator behavior under deregulation is discussed.

#### EXISTING SITUATION OF OWNER-OPERATORS

Certain aspects of current owner-operator behavior, it is believed, will influence their future activities if the existing regulatory restrictions on operating certificates and rates are lifted as is contemplated in various deregulation proposals. The following areas of existing owner-operator behavior have particular relevance in assessing the prospective actions of this group: (a) the impact that owner-operators have on the level of compensation they currently receive, (b) the present level of earnings from the owner-operator business, and (c) the rate of business failures among owner-operators. Data from the ICC owner-operator studies that concern each of these three areas are presented below.

##### Impact That Owner-Operators Have on Their Current Level of Compensation

In order to anticipate owner-operator behavior under deregulation, it is instructive to understand the impact that owner-operators currently have on their level of compensation. The ICC studies provide relevant data on this issue for both permanent-lease and trip-lease owner-operators.

##### Permanent-Lease Owner-Operators

A major issue that faces owner-operators concerns control over both their work assignments and their level of compensation. The public often views owner-operators as having the freedom and flexibility that result from being their own boss. The term "last American cowboy" is symbolic of this public image. However, data from the ICC surveys are at substantial variance with this image. In the follow-up owner-operator survey, respondents under permanent lease were asked specific questions about trip leases, exempt loads, or both. The responses delineate some important limitations to their freedoms.

Owner-operators of only 59 percent of the vehicles that were under permanent lease on October 31, 1977 (the reference date for the initial ICC survey), were allowed by the regulated carrier to whom they were under permanent lease to also arrange trip leases. However, even those owner-operators who were allowed to trip-lease were not, in most instances, themselves responsible for arranging the trip. Indeed, the carrier who held the permanent lease was responsible for arranging the most-recent trip for 56 percent of the owner-operator vehicles still under permanent lease on October 31, 1978, whereas the owner-operators themselves (by personally contacting a regulated carrier) arranged the most-recent trip for only 34 percent of the vehicles.

The carrier who held the permanent lease also dominated in arranging exempt loads for the owner-operators. The survey showed that 72 percent of the owner-operator vehicles still under permanent lease in 1978 carried exempt loads. Of all the exempt loads carried, the carrier who held the permanent lease arranged the most-recent load for 62 percent of the owner-operator vehicles still under permanent lease in 1978, and truck brokers arranged the most-recent exempt load for another 12 percent. In contrast, the owner-operators themselves arranged the most-recent exempt load for only 24 percent of

the vehicles. Thus, carriers who held permanent leases restricted the activities of most of their leased owner-operators either by refusing to allow them to arrange trip leases or by arranging both the trip lease and the exempt load, if permitted.

In addition, the carrier who holds the permanent lease takes, in most instances, a portion of the revenue that an owner-operator receives from both the trip lease and the exempt loads. In fact, respondents who had 88 percent of the vehicles still under permanent lease in 1978 said that the carrier who held their lease took a portion of the trip-lease revenue, whereas the corresponding figure for exempt loads was 84 percent of the vehicles. In both cases, these percentages are substantially higher than the corresponding ones in which carriers who held permanent leases arranged the trips. This indicates that, even if the lease-holding carriers do not arrange the trips, they are likely to take a portion of the owner-operator's revenue. Thus, the lease-holding carrier exerts strong control over the trip-leasing and exempt-hauling activities of the owner-operators who represent an overwhelming majority of the vehicles under permanent lease.

Traditionally, workers have sought to counterbalance such employer power through concerted activities such as the formation of unions to represent grievances to the employers and to bargain collectively with them. However, owner-operators who account for the vast majority of vehicles under permanent lease do not belong to a union. In fact, the owner-operators of 16 percent of the vehicles no longer under permanent lease on October 31, 1978, belonged to a union, while the comparable number of vehicles still under lease was 24 percent.

In addition to the issue of union membership, the survey asked respondents whether the compensation they received was directly affected by a union agreement. Again, those who owned only 13 percent of the vehicles still under lease and only 22 percent of those no longer under lease replied that union membership affected their compensation.

##### Trip-Lease Owner-Operators

The ICC surveys also focused on trip leases between regulated carriers and owner-operators. As noted in the previous subsection, many owner-operators under permanent lease to a regulated carrier also trip-lease. In addition, some owner-operators trip-lease with regulated carriers primarily for backhauls in association with the transportation of exempt agricultural commodities. The ICC took a sample of trip leases with regulated carriers during one particular month (October 1977) and sent a questionnaire to the owner-operators who had the trip leases. One year later, the ICC resurveyed the same owner-operators. The surveys contained data pertinent to the issue of the control exercised by the owner-operators who had trip leases over their activities and compensation.

Owner-operators in the trip-lease sample played a more important role in arranging both their trip leases and their exempt loads than did those in the base sample of those under permanent leases. In fact, owner-operators still in business on October 31, 1978, who had 59 percent of the trip leases arranged their most-recent trip lease by personally contacting a regulated carrier, and those who had 49 percent of these trip leases arranged their most-recent exempt load by personally contacting the shipper. In contrast, carriers who held permanent leases had a much smaller role in arranging trip leases and exempt loads for the owner-operators in the trip-lease sample than they had for the sample of those under permanent leases. The survey showed

that the carrier arranged the most-recent trip leases for owner-operators still in business on the survey date who had only 28 percent of the leases and the most-recent exempt loads for those who had only 18 percent of the leases. Truck brokers also had a significant role in arranging exempt loads for owner-operators in the trip-lease sample. Brokers arranged trip leases for the most-recent exempt loads for owner-operators still in business who had 28 percent of the leases.

The explanation for the reduced role of carriers that hold permanent leases for owner-operators in the trip-lease sample as opposed to their role in the permanent-lease sample is that the former sample includes both owner-operators not under permanent lease and those still under permanent lease. Obviously, owner-operators in the former category (with no lease-holding carrier to arrange their loads) may contact a regulated carrier directly to arrange a load.

However, the mere fact that owner-operators arrange their trip leases, exempt hauls, or both does not necessarily imply that they exercise control over the level of their compensation. Owner-operators still in business who had 29 percent of the trip leases said they engaged in negotiations with truck brokers or shippers to determine the compensation for the exempt shipment. In contrast, those who had 49 percent of the trip leases had to accept what truck brokers or shippers offered and did not negotiate with them, and those who handled 12 percent of the leases said that trucking rate sheets with fixed levels of compensation were consulted to determine their rates. Therefore, in the trip-lease sample, owner-operator control in the form of negotiations for wages was substantially less likely to occur than control in the form of arranging the exempt load, trip lease, or both.

In the trip-lease sample, there was also very little evidence that owner-operator compensation was affected by a union agreement. No owner-operators in the trip-lease sample said that their exempt-commodity revenue was affected by a union agreement, whereas those owner-operators still in business in 1978 who had only 8 percent of the trip leases said that their trip-lease revenue was affected by a union agreement.

In short, owner-operators in the trip-lease and permanent-lease samples exercised little control over the level of their compensation for exempt loads and trip leases. The trip-lease sample, in contrast to the permanent-lease sample, however, showed that owner-operators had greater control in arranging their trips. Yet this greater control over trip arrangements was not equivalent to influence over the level of their compensation. For both samples, the option of joining unions to improve bargaining power has not yet been exercised by the majority of owner-operators.

#### Level of Earnings for Owner-Operators

Data that concern owner-operator earnings under the existing regulatory system are valuable in assessing their response to changes brought about by deregulation. In addition to the question of specific earnings, it is also important to know whether or not owner-operators make accurate estimates of their business costs. The answer to the latter question would give an indication of their strategy in negotiations with carriers, shippers, or both for their compensation in a deregulated environment. The ICC owner-operator surveys covered these issues for both owner-operators under permanent lease and those who trip-lease.

#### Owner-Operators Under Permanent Lease

In order for businesses to be successful, their managers must have accurate data about the costs of operation so that the prices charged for their product or service will cover those costs. In the follow-up owner-operator survey, respondents were asked specific questions about their cost records.

Owner-operators under permanent lease were questioned about whether they kept cost records adequate to permit them to make realistic estimates of the ability of their revenue from a particular load to cover their costs. The owner-operators under permanent lease were divided into three categories based on whether, on October 31, 1978, they were no longer under permanent lease, under permanent lease to the same carrier, or under lease to a different carrier. In all three categories, at least 83 percent of the owner-operators said they kept adequate cost records. However, the adequacy of these cost records is seriously questioned because a subsequent survey question asked whether the cost estimate included some amount for equipment replacement. In all three categories, owner-operators who had a significantly small percentage of vehicles responded affirmatively to the second question. For example, although 93 percent of the owner-operators who had vehicles still under permanent lease to the same carrier said that they kept cost records, only 61 percent of these owner-operators said that their estimates included equipment-replacement costs. Thus, there is serious doubt about the adequacy of cost estimates by owner-operators who represent a substantial portion of the vehicles under permanent lease, since they exclude equipment-replacement costs--a major expense category for owner-operators.

In view of recent attention from the media to owner-operator problems as well as the inadequacy of the cost estimates, data presented in Table 1 about owner-operator net income before taxes are not surprising. It should be noted that the net income figures given are those reported by the owner-operators themselves; hence they are not objective measures but are their perceptions of the net income situation. These perceptions are more valuable for the purposes of this study, since they form the basis for future decisions by the owner-operators. By October 31, 1978, 70 percent of those owner-operators no longer under permanent lease and 67 percent of those under permanent lease to a different carrier had earned less than \$10 000 in 1977, while the comparable figure of owner-operators still under permanent lease to the same carrier was only 36 percent. Owner-operators who had a higher percentage of vehicles under lease to the same carrier earned higher levels of income than did those whose vehicles were no longer under lease or were under lease to a different carrier. It should be observed that the income figures in Table 1 are not adjusted for the number of tractors owned by the owner-operators. The basic message, however, is that the earnings of the owner-operators under permanent leases were seriously depressed in 1977.

#### Trip-Lease Owner-Operators

The trip-lease survey covered the same relevant issues as did the permanent-lease survey. Of the owner-operators still in business in 1978, those who had 84 percent of the trip leases said that they kept cost records adequate to make a realistic estimate of whether a particular load would cover costs of operation; of those no longer in business in 1978, those who had 97 percent of the leases said

**Table 1. Distribution of permanent leases as of October 31, 1978, on basis of net income to owner-operators before taxes.**

Net Income Before Taxes During 1977 (\$)	No Longer Under Lease <sup>a</sup> (%)	Still Under Lease to Same Carrier <sup>b</sup> (%)	Under Lease to a Different Carrier <sup>c</sup> (%)
Less than 10 000	70	36	67
10 000-14 999	23	25	5
15 000-19 999	3	13	9
20 000-24 999	2	9	14
25 000-29 999	2	7	5
30 000-34 999	0	2	0
35 000-39 999	0	1	0
40 000-49 999	0	1	0
50 000 and more	0	6	0

<sup>a</sup>Nonresponse, 5 percent.<sup>b</sup>Nonresponse, 2 percent.<sup>c</sup>Nonresponse, 4 percent.**Table 2. Distribution of trip leases as of October 31, 1978, on basis of net income to owner-operators before taxes.**

Net Income Before Taxes During 1977 (\$)	No Longer in Business in 1978 <sup>a</sup> (%)	Still in Business in 1978 <sup>b</sup> (%)
Less than 10 000	87	43
10 000-14 999	10	21
15 000-19 999	3	11
20 000-24 999	0	8
25 000-29 999	0	1
30 000-34 999	0	2
35 000-39 999	0	5
40 000-49 999	0	2
50 000-59 999	0	2
60 000 and more	0	5

<sup>a</sup>Nonresponse, 3 percent.<sup>b</sup>Nonresponse, 2 percent.

that they had kept similar records. Again, however, many owner-operators did not include a major cost item--equipment replacement--in their estimates. For example, owner-operators no longer in business in 1978 who had handled only 30 percent of the trip leases in 1977 said that they had included equipment replacements in their cost estimates, while those still in business who had handled 63 percent of the trip leases had included such estimates.

The data in Table 2 about the net income of owner-operators in the trip-lease sample are comparable to those about owner-operators in the permanent-lease sample. Owner-operators no longer in business in 1978 who had handled 87 percent of the trip leases had earned less than \$10 000, while the comparable figure for those still in business was 43 percent.

Net 1977 income figures for the owner-operators in the trip-lease sample who were still in business in 1978 are less depressed than the 1977 figures for those no longer in business in 1978. Indeed, those of the owner-operators still in business who handled 64 percent of the trip leases had earned less than \$15 000 in 1977.

In sum, both the permanent- and trip-lease samples gave strong indications of depressed earnings in the owner-operator sector. These low-earning patterns were coupled with incomplete cost information, which further endangered the owner-operator position.

#### Turnover Rate for Owner-Operators

The lack of control over operations and compensation, coupled with incomplete cost data and low earnings, results (not unsurprisingly) in high labor turnover in the owner-operator sector. By

following the same owner-operators over a two-year period, the ICC studies have documented owner-operator turnover for both the permanent-lease and trip-lease samples.

On October 31, 1978, 20 percent of the owner-operators who had been under permanent lease on October 31, 1977, were no longer under a permanent lease, whereas 72 percent of the owner-operators were still under permanent lease to the same carrier. The remaining owner-operators were under permanent lease to a different carrier on October 31, 1978.

Comparable turnover rates exist for owner-operators in the trip-lease sample. On October 31, 1978, those of the owner-operators in business in October 1977 who had handled 18 percent of the trip leases were no longer in business, whereas the remainder of the trip-lease owner-operators were still in business.

The interaction of problems that face the owner-operators produces turnover rates equalling approximately one-fifth of both the permanent-lease and trip-lease samples in one year. This instability has important implications for assessing the impact of deregulation on the owner-operator sector, as will be demonstrated in the following section.

#### RELATIONSHIP BETWEEN OWNER-OPERATOR DATA AND DEREGULATION SCENARIOS

This analysis draws on the empirical base developed in the previous section to assess each of the four deregulation scenarios. These data will improve our knowledge about the likelihood of occurrence for each of the scenarios. Such understanding is useful in assessing the implications of alternative regulatory reform proposals.

#### Scenario 1

A major assumption of this scenario was that the owner-operators would engage in destructive, cutthroat competition. This was in part because they were unaware of their costs of doing business and would unknowingly offer their services for an amount of revenue below their costs. The ICC survey data revealed that, although the vast majority of owner-operators make cost estimates, these cost estimates do not include a major owner-operator expense category--equipment-replacement costs. Thus, although the overwhelming majority of owner-operators have a close approximation of their out-of-pocket costs in the short term, these estimates are insufficient for covering equipment-replacement costs, which occur at three- to five-year intervals. In a directly competitive circumstance, then, the majority of owner-operators, aware of their short-term out-of-pocket costs but unaware of their longer-term needs, might be willing to go below their long-term costs in direct negotiations with shippers.

The likelihood of below-cost pricing would be greater, of course, if the supply of owner-operators were plentiful. Scenario 1, indeed, implies that the supply of owner-operators will be sufficient that shippers will be in a position to force the owner-operators to bid against one another and to drive down their revenues. However, the ICC data about the depressed level of owner-operator earnings and high turnover rates, which encompasses approximately one-fifth of both the permanent- and trip-lease samples, have serious implications for the supply assumptions of scenario 1. In addition, the owner-operators are faced with significantly higher entry costs due to increases in the price of

tractors and extremely high interest rates. Thus, evidence to support the critical supply assumptions of scenario 1 is lacking.

Scenario 1 also implies that owner-operators will bid against one another in direct negotiations with shippers. However, the ICC data indicated that, except for exempt shippers, owner-operators have had little experience in direct negotiations with shippers. Even in dealing with exempt shippers, owner-operators were more likely to rely on the carrier who held their permanent lease (if they were under permanent lease) or a truck broker than to approach the shipper directly. Thus, past experience does not support the notion that, under deregulation, owner-operators will shift their current patterns for arranging trips and will deal directly with shippers.

In conclusion, the fact that owner-operators make incomplete cost estimates does provide the potential for cutthroat competition. However, due to depressed earnings and high turnover rates in the owner-operator sector, there is little likelihood that there will be a supply of owner-operators adequate for such a situation to develop. Finally, although the scenario suggests a major shift in owner-operator behavior from dealing primarily with carriers to dealing directly with shippers, there is no evidence to support the likelihood of such a shift.

#### Scenario 2

Scenario 2 implies that, under deregulation, owner-operators would continue to deal with carriers rather than approach shippers directly. Certainly, the ICC survey data support the contention that owner-operators are currently dependent on carriers to arrange their loads under permanent lease, under trip lease, and even for exempt trips. This pattern of close association between owner-operators and carriers is therefore well established.

However, scenario 2 suggests that, under deregulation, owner-operators will be able to approach the carriers from a position of strength (due to the option of direct carriage provided by deregulation) rather than from a position of weakness (due to the need to rely on the carriers who possess proper operating certificates). Scenario 2 states that owner-operators will be able to convert this improved bargaining position into financial gains. Obviously, the extent of these gains depends in part on the ability of owner-operators to organize effectively and to control supply. Nevertheless, the ICC survey data that indicated only approximately 20 percent of the permanent-lease sample had union membership cast serious doubt on the organizing ability of owner-operators. However, without some significant improvement in the bargaining strength of owner-operators, the likelihood is diminished that conditions described in scenario 2 will occur.

Yet the prospects for the occurrence of scenario 2 improve if the situation of owner-operators with multiple-vehicle fleets is considered. It can be argued that owner-operators who control vehicle fleets rather than a single vehicle would be in a better bargaining position than the single-vehicle owner in a deregulated environment. The ICC survey data provide some evidence that the multiple-vehicle fleet owners, indeed, have greater bargaining power under the present regulatory system than do the single-vehicle operators. In response to the question that concerns the method by which their rates for exempt loads were determined, owner-operators who owned between 6 and 10 vehicles and handled 63 percent of the trip leases and those

who owned between 11 and 20 vehicles and handled 50 percent of the trip leases negotiated with either a broker or a shipper the rate they were to receive for hauling the exempt load. The comparable figures among the single-vehicle fleet owners and those who owned between 2 and 5 vehicles are only 18 and 20 percent, respectively.

These results indicate that the multiple-vehicle fleet owners currently have better control over their financial position than do the single-vehicle owners. It is anticipated under this scenario that the multiple-vehicle fleet owners would be in a better position to translate their increased bargaining power (which results from the option of direct carriage combined with the control of supply) into higher financial rewards. Thus, the likelihood of scenario 2 seems particularly appropriate for multiple-vehicle fleet owners.

#### Scenario 3

Unlike scenario 1, scenarios 2 and 3 assume increased bargaining power for owner-operators that results from the option of direct carriage, the existing depressed levels of owner-operator earnings, high turnover rates, and some control over supply (especially among the multiple-vehicle owners).

Under the conditions of scenario 2, carriers cognizant of the improved situation for owner-operators would be willing to increase the owner-operator's share of the revenue. In contrast, scenario 3 envisions that the shippers, bypassing the carriers, will actively seek owner-operators (who would no longer be required to lease to regulated carriers) directly. The incentives for shippers to act in this manner are real. Currently, regulated carriers take from 25 to 30 percent of the total freight revenue and give the rest to the owner-operators. Shippers who believe that they could secure owner-operators directly at less than 25-30 percent of their current freight revenue would pursue this course of action.

It should be recognized that if the shippers were able to secure owner-operators with a savings that equaled or exceeded the 25 percent share now taken by the carriers, scenario 3 would be equivalent to the cutthroat competitive conditions of scenario 1, since in both instances owner-operator revenues would be driven below costs. However, scenario 3 argues that shippers and owner-operators will split the percentage of the revenue now taken by the regulated carrier. The exact nature of that split would be a function of the bargaining power of the owner-operators--with the multiple-vehicle fleet owners in a better bargaining position than the single-vehicle owner.

This scenario assumes that shippers will devote substantial efforts in dealing with owner-operators directly. It assumes also that owner-operators will be willing to deal directly with shippers, although there is no past experience on which to base such an assumption.

#### Scenario 4

Scenario 4 is really an offshoot of scenarios 2 and 3. It foresees that the role of truck brokers in the exempt sector will expand as a consequence of deregulation. The incentives for owner-operators to rely on truck brokers to arrange their loads would be great, since the brokers generally take from 8 to 10 percent of the revenue in contrast to the 25-30 percent taken by regulated carriers. It should be emphasized, however, that there are differences in the level of services provided by the brokers and

the carriers. Whether the additional services provided by the carriers account for the percentage of difference in fees is a subject of great controversy.

There would also be incentives for shippers to use the services of truck brokers if some of the reductions in commission percentages were passed on to them in the form of reduced rates. The shippers might also find that the services of truck brokers are less expensive than the costs of locating and dealing directly with owner-operators themselves.

#### CONCLUSIONS

This paper has presented four scenarios describing the impacts of deregulation on owner-operators in the truckload segment of the motor carrier industry. Some final remarks about the likelihood of each scenario, based on data from the ICC surveys, are appropriate.

Scenario 1 conditions are unlikely to develop due to the already depressed level of owner-operator earnings, the current high turnover rates among owner-operators, and their increased options that result from deregulation. Shippers recognize that scenario 1 conditions would endanger the transportation system and consequently would refrain from pursuing it.

There can be no question that owner-operator as well as shipper options will increase as a result of deregulation and the removal of operating-certificate restrictions. Under deregulation, carriers will no longer be able to take a share of the freight revenue that is not justified by the cost of services provided. If they attempt to do so, owner-operators will refuse to drive for them and select instead either the option of approaching the shipper directly or approaching a truck broker. Shippers as well will refuse to pay carrier freight revenues that reflect compensation to the carriers not justified by the cost of service.

The current depressed state of the owner-operator segment and the high turnover rates should be improved due to the increased options made available to the owner-operators as a result of deregulation. Improvement in the situation will vary among individual owner-operators in direct proportion to their bargaining power. It is believed that the multiple-vehicle fleet owners who have some control over supply will have more bargaining power in dealing with shippers, carriers, or brokers than will the single-vehicle owner. It is believed that

the power of the multiple-vehicle fleet owner, although improved, will nevertheless be checked by the threat of new entrants, even though the costs of entry (especially for the single-vehicle owner) have increased substantially due to inflation and higher interest costs.

In sum, the consideration of the impact of deregulation on the owner-operator segment is a critical component of the current policy debate. Decisions should not be made without a definite familiarity with the existing conditions of owner-operators.

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