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Statement of
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before the
Subcommittee on Surface Transportation
Committee on Public Works and Transportation
United States House of Representatives
on
Trucking Industry Unemployment

Mr. Chairman and Members of the Subcommittee.

We are here today at your request to discuss our June 11, 1982, report to Senator DeConcini entitled "Effects of Regulatory Reform on Unemployment in the Trucking Industry" (GAO/CED-82-90) and specifically the results of our work relating to unemployment in the trucking industry.

The Interstate Commerce Commission (ICC) took administrative steps to reduce the regulatory framework in the trucking industry well before the Motor Carrier Act of 1980 (94 Stat 793). Beginning in 1977, ICC under its own authority eased entry policy, relaxed certain restrictions on carriers' existing route systems and operations, and expanded the area carriers can serve.

The Motor Carrier Act substantially reduced Government control of trucking. The act was designed to make entrance into the industry easier for new firms and stimulate price competition. Our analysis, which reflects the effects of regulatory reform since July 1980, indicates that

- poor economic conditions, not regulatory reform, have been the likely cause of high unemployment in the trucking industry;
- the act brought about increased competition in the trucking industry and resulted in an overall increase in the number of trucking firms in the marketplace, and
- increased industry competition accelerated a decline in Teamsters Union representation in the trucking industry.

POOR ECONOMIC CONDITIONS ARE THE LIKELY
CAUSE OF HIGH TRUCKING INDUSTRY UNEMPLOYMENT

We studied trends in the overall trucking industry unemployment rates to determine the influence of changes in the economy and industry regulatory reform occurring since July 1980. Our analyses, which accounted for about 80 percent of the trucking unemployment rate, indicated that recent increases in trucking unemployment were likely caused by a downturn in the economy and that regulatory reform was only a minor influencing factor.

We analyzed the relationship between the unemployment rate in the trucking service industry and several variables including unemployment rates in the manufacturing of durable goods and construction industries using data covering 1972 through 1981. These industries were chosen because their economic activity affects

trucking Other economic variables included the inflation rate and the Index of Physical Output in Manufacturing Also, we accounted for deregulation in our analysis

Trucking unemployment rates have increased substantially since the third quarter of 1980 when the Motor Carrier Act was passed. In the six quarters preceeding the act, the average unemployment rate was 6.9 percent, for the six quarters after the act, the average was 9.3 percent

In our analyses (see App. I) we used models for analyzing trucking unemployment both with and without a factor for regulatory reform. The model without a regulatory reform factor estimated trucking unemployment rates almost as well as the other model. Since both methods estimate trucking unemployment at about the same rate, it would appear that regulatory reform had no significant effect

The model with a regulatory reform variable did show that regulatory reform seemed to contribute to some extent to a higher unemployment rate, but this variable might also have reflected the influence of certain nontrucking and unquantified variables which we did not analyze, such as rail competition, private company hauling, and improved productivity from larger trucks and longer hauls. Consequently, we still believe the effects of regulatory reform on trucking unemployment were not significant and that poor economic conditions have been the more likely cause of high trucking unemployment. It must be recognized, however, that the act has not

been in place long enough to show conclusively the effects of regulatory reform.

THE MOTOR CARRIER ACT INCREASED
COMPETITION IN THE TRUCKING INDUSTRY

Trucking regulatory reform made it possible for many new firms to enter the trucking industry and for many existing firms to expand their operations. For the last 5 years the total number of motor carriers regulated by ICC has continually increased. In 1976, 16,472 motor carriers were regulated by ICC; that number increased to 22,270 in 1981. From 1980 to 1981 a net increase of 4,225 occurred.

Increased competition has also come from firms which have applied to ICC for new and expanded permanent operating rights. The applications seek broader geographic coverage as well as an authority to haul a wider range of commodities. In 1976, 6,746 firms applied to ICC for new and expanded permanent operating rights, and ICC granted about 70 percent of the applications. In 1981, 28,414 firms applied for these rights and ICC granted about 97 percent of them.

Trucking business failures

While the overall number of regulated trucking firms has increased, a number of trucking businesses have failed. Industry sources, while differing on the precise number of business failures, generally attribute the causes of failure to a combination

of more entrants into the industry, a declining economy, and price competition.

We examined several sources reporting trucking business failures since the Motor Carrier Act was passed

--the Teamsters Union estimated that 416 regulated motor carriers employing union members have gone out of business since August 1980. However, ICC analyzed the Teamsters' list and found that no more than 59 of the firms listed by the Teamsters Union were ICC regulated and had gone out of business after August 1980. The majority of the listed firms were intrastate carriers, private carriers, or nontrucking businesses.

--the American Trucking Association reported in February 1982 that 47 trucking companies, each with revenues over \$1 million, have gone out of business since June 1980. Employment data available for 35 of the firms shows that 17,510 trucking jobs were lost. No comparative data was available to show the number of business failures before the act was passed. A June 1, 1982, Association update showed that an additional 97 firms employing 781 trucker workers have gone out of business. The Association believes there are more than 144 firms, but it has only been able to confirm that number.

--the American Trucking Association's Regular Common Carrier Conference started monitoring a sample of over 300 large carriers in 1974. The number of business failures and bankruptcies among this group increased during 1980 but fell during 1981.

Numbers of independent truckers have increased

Bureau of Labor Statistics (BLS) data shows that the self-employed truckers employment rate has increased since 1976. Our study shows that the act did not affect this rate. BLS classifies self-employed as those who spend the major portion of their time working for profit or fees in their own business, profession, or trade. This fits the activities of independent owner-operators, but we did not verify the extent to which it may also include truckers not involved in interstate commerce. In 1976 there were 155,000 self-employed truckers, and in 1981 the yearly average increased to 200,000.

A representative of the Independent Owner-Operators Conference testified in June 1981 congressional oversight hearings on the Motor Carrier Act that in the first year after the Motor Carrier Act was passed, thousands of owner-operators went out of business. The representative of the Conference stated that the act opened entry to such a degree that rate competition has become predatory. The official did not have precise owner-operator employment data, but he estimated that in the last 3 years the number of owner-operators has declined from 235,000 to 175,000.

A March 1982 Federal Trade Commission study shows that trucking regulatory reform and the recession have combined to create lower trucking rates. The study pointed out, however, that there is no evidence of predatory pricing in which dominant carriers engage in below-cost pricing.

Our analysis indicated that regulatory reform had no significant impact on the self-employment rate (see App II)

INDUSTRY COMPETITION HAS DECREASED
TEAMSTERS UNION MEMBERSHIP

Teamsters Union membership under the National Master Freight Agreement has declined steadily since 1970. Between 1970 and 1982, Teamsters' rolls declined 21 percent, with the biggest rate of decline coinciding with regulatory reform.

Increased competition from non-Teamster entrants into the general freight sector of the trucking industry has caused Teamster carriers to lose a substantial share of the truckload market. The nonunion entrants can be more competitive because they charge less for truckload shipments. They generally pay drivers less than Teamsters Union wages, and they have lower overhead expenses because they do not maintain terminals and offices necessary for less-than-truckload freight operations. For example, in 1981, the average Teamsters Union wage under the National Master Freight Agreement was \$12.74 per hour, while the average private company, nonunion trucking employee wage was \$8.60 per hour.

Teamster general freight carriers have experienced a decline in tonnage hauled over a number of years. Available data for large carriers, representing about 90 percent of the general freight sector, showed that from 1972 to 1980 general freight tonnage decreased at an annual rate of 4 percent, while total tonnage for the rest of the trucking industry increased by 1 percent.

Employment data also indicated that general freight carriers have not kept pace with an overall growth in the total trucking industry. Between 1972 and 1980, employment for Teamster general freight carriers was virtually unchanged while the self-employed sector grew by 43 percent and all wage and salary trucking employees, exclusive of private company trucking employees, grew by 15 percent. Employment data for private company trucking employees was not readily available.

Surveys of intercity truck movements conducted by a transportation research organization also indicated that changes are occurring in the structure of the trucking industry which are adversely affecting the Teamsters Union. The firm's survey data showed that industry competition has resulted in a decline in both union drivers and traffic of general freight carriers.

Teamster officials did not have specific information on overall employment changes taking place in the trucking industry. However, they did state that the Motor Carrier Act's eased entry provisions have caused established general freight common carriers to lose a substantial share of the truckload market to private companies and independent owner-operators. The union officials said many private companies are starting, or planning to start, their own trucking lines and this will greatly reduce established trucking firms' business.

The American Trucking Association estimated that private company trucking operations account for about 60 percent of intercity truck miles and are one of the industry's fastest growing

segments ICC records show that from the passage of the Motor Carrier Act in July 1980 to October 1981, 713 corporations covering 7,712 subsidiaries have filed notice of their intent to haul such traffic.

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Mr Chairman, this concludes my statement. We will be glad to respond to your questions

Comparison of the trucking unemployment
rate and the estimated rates with and without
a variable regulatory reform factor

<u>Year</u>	<u>Quarter</u>	Actual	Estimated trucking unemployment	
		trucking unemploy- ment rate	Method I-- regulatory reform <u>factor included</u>	Method II-- no regulatory reform <u>factor included</u>
----- (percent) -----				
1977	1	9 9	8 4	8.5
	2	6 4	6 1	6 2
	3	5.9	5 4	5.3
	4	5 2	5 7	5.5
1978	1	6.7	6.7	6.6
	2	5.4	4.8	4.7
	3	4 0	4 9	5.0
	4	3.7	4 3	4.4
1979	1	6 4	5.7	5.8
	2	5.2	5 7	5 8
	3	6.5	5.3	5 4
	4	5.9	5.9	6.1
1980	1	8.1	8.1	8.4
	2	9 0	9.6	10.0
	3	10.2	11.0	10.3
	4	9.4	9.1	8 6
1981	1	12.0	10.2	9.9
	2	8.2	8.3	7.8
	3	7.3	7.2	6.9
	4	8.7	9.8	9 3

Comparison of the actual self-employment
rate in trucking and the estimated rates with and
without a variable regulatory reform factor

<u>Year</u>	<u>Quarter</u>	<u>Actual self- employment rate</u>	<u>Estimated self- employment rate by:</u>	
			<u>Method I-- regulatory reform factor included</u>	<u>Method II-- regulatory reform factor not included</u>
			<u>----- (percent) -----</u>	
1977	1	13.5	13.8	13.9
	2	15.2	15.0	15.1
	3	12.9	13.1	13.1
	4	10.5	12.4	12.4
1978	1	13.9	13.0	13.1
	2	14.8	14.0	14.0
	3	12.2	12.4	12.4
	4	11.8	11.7	11.6
1979	1	13.4	13.0	12.9
	2	13.7	14.0	14.0
	3	13.8	12.9	12.9
	4	13.4	13.8	13.6
1980	1	13.6	13.7	13.7
	2	14.5	15.1	15.0
	3	14.9	14.4	14.5
	4	14.7	14.5	14.5
1981	1	15.3	15.2	15.2
	2	15.0	15.8	15.8
	3	14.5	14.2	14.4
	4	14.5	14.5	14.6