TWO CASES FOR UNREGULATED TRUCK TRANSPORTATION: COMMENT

Two recent articles [3, 5] find the economic performance of exempt motor carriage to be relatively favorable. These articles merit scrutiny because their conclusions are in agreement with recent Presidential recommendations [2, p.19] for curtailments in the economic regulation of transport. Such recommendations hold potentially important implications for economic performance in motor transport.

Richard N. Farmer argues that exempt motor carriage is more efficient than regulated motor carriage because (a) the cost-rate levels of regulated carriers exceed those of exempt carriers and (b) the profits of exempt carriers exceed those of regulated carriers. He draws these conclusions from a comparison of data for regulated motor-carrier operations in the Middle Atlantic region with data collected by the USDA during a study of 25 exempt haulers in the Washington, D.C., area [4]. Farmer warns [3, p.403] that these data “should be regarded as suggestive rather than definitive, given problems of comparability.” However, it appears that he does not go far enough in explicating the limitations of these data. The USDA study’s data cannot be accepted as anything more than a glimpse of exempt carriers’ cost-revenue relationships—particularly if estimates such as the one used by Farmer himself, which places the population of exempt trucking at more than 30,000 firms operating almost 650,000 vehicles, are reasonable approximations [8, p.513]. This point is particularly crucial because Farmer directs his concluding remarks toward the economic regulation of transport in general and does not confine himself to the haulage of particular commodities in specific geographic areas [3, pp. 408-409].

Furthermore, Farmer does not mention the fact that results portrayed in the accounting data which he has inspected differ at least somewhat from the “real” economic performance of the firms under study. Finally, he does not acknowledge the obvious informational handicaps imposed by (a) the absence of a record
of the trend in exempt carriage’s cost-revenue performance through several successive periods of operation and (b) the oft-found shortcomings in the accounting systems of small firms in general and the fact that the accuracy of the USDA’s study is dependent initially upon the quality of exempt carriers’ accounting systems.

Farmer cites USDA studies [6, 7, 10] of the effects which regulation, deregulation, and re-regulation have had on the rates and quality of transport service for certain commodities as evidence that shippers obtain lower rates without regulation. But lower rates conceivably could be obtained with “too many” resources devoted to transport if rates should be set below average total cost for long-run periods of time. Such “overinvestment” disequilibrium could result from continuing entry induced by the ignorance of cost and demand conditions. A more complete measure of transport’s social benefit would thus have to include a consideration of both (a) the level of rates and (b) the question of whether or not the dedication of particular resources to transport is justified by the value of the service that they perform. However, neither the USDA nor Farmer indicates whether the changes in rates were justified by the carriers’ revenue-cost relationships.

Farmer, perhaps conscious of this omission, next cited a USDA study [1] of the age of exempt trucking firms and concluded that “they do not suggest that competition in this sector has the effect of forcing prices below costs for long periods” [3, p.404]. But it is the rate of turnover in firms rather than their length of life that indicates the degree of stability prevailing in a particular group of firms. For example, while a preponderance of young motor carriers might be a clue to rampant financial malnutrition, it could also indicate that new firms are entering in response to an increasing demand for road transport. Furthermore, neither low turnover rates nor the longevity of firms provides a clue to the possibility that persistent lack of adequate cost knowledge, together with ignorance of alternatives by many individuals engaged in exempt transport, might inhibit the compensation of labor, managerial, and capital inputs at levels commensurate with opportunity-cost imputations.

W. Miklius and D. B. DeLoach argue that chronic below-cost pricing cannot occur in motor transport because owner-drivers who charge unremunerative rates through ignorance of costs will ultimately recognize their error and adjust prices accordingly [5, pp.936-937]. But if the exempt sector of trucking should in fact be suffering from costs in excess of revenues and if certain individual operators recognize that they are underpricing their services and attempt to raise rates to remunerative levels, they would seemingly stand little chance of being able to do so and still obtain traffic—if markets for exempt trucking service are as highly compet-

---

1 At this point, the question of the incidence of savings which result from lower freight rates should be noted. The extent to which consumers will realize the benefits of lower freight charges is dependent upon the type of competition prevailing in the markets where shippers sell their output.

2 It must be emphasized that sales of goods or services which can be made only at levels below average total cost may be economically justifiable in the short run; losses will be minimized in the short run so long as price exceeds average variable cost.
itive as Miklius and DeLoach find them to be [5, pp.934-935]. Also, Miklius and DeLoach do not indicate how cost knowledge would be acquired if owner-drivers unable to continue vehicle mortgage payments as a result of below-cost pricing should be replaced by new entrants equally ignorant of costs who would operate until they too faced bankruptcy.

Miklius and DeLoach's assertion [5, p.937] that owner-drivers "should be familiar with both costs and revenues" as a result of previous employment by larger exempt trucking firms is an unsubstantiated supposition. Two questions come to mind on this point: (a) Who should reasonably be expected to possess knowledge of relevant costs for pricing purposes in larger for-hire motor-carrier firms—managerial personnel charged with pricing decisions or drivers? (b) Is management's possession and use of cost knowledge for pricing decisions relatively pervasive in both the regulated and the nonregulated sectors of trucking? Some evidence exists that executive personnel in many motor carriers of diverse sizes lack adequate cost knowledge [9, 11]. If so, could the average driver, whose exposure to data sources extends little beyond freight and fuel bills, have greater knowledge of costs than his superiors?

Both Farmer and Miklius and DeLoach provide glimpses of the economic performance of unregulated carriage—a topic about which most transport economists would probably agree that too little is known. However, both articles stop far short of exhibiting overwhelming proof that the economic performance of a completely unregulated trucking industry would necessarily be superior to that of the industry as it presently exists.

JOHN C. SPYCHALSKI
University of Maryland

References

[10] WINTER, J. C., AND IVON W. ULREY, Supplement to Interstate Trucking of
PARITY OF NET WORTH

The United States Department of Agriculture [8, p.2] reported that the average per-family net worth of farm people in 1962 was $51,600. Katona [1, p.128] estimated that in 1962 the average per-family net worth of the United States population, including both farm and nonfarm families, was $14,600. When one takes into account the influence of average farm-family net worth upon the total for the country and corrects for it,\(^1\) average net worth for the nonfarm family is estimated to be $11,581. Therefore, the net-worth parity ratio for nonfarm people was 22:

\[
\frac{\text{Net-worth parity ratio for nonfarm people}}{\text{Net-worth for nonfarm people}} = \frac{11,581}{51,600} = 22. 
\]

It is noteworthy that net-worth parity is sharply against nonfarm people while income parity is sharply against farm people:

\[
\text{Income parity ratio for farm people} = \frac{1,480}{2,440} = 59. 
\]

\[
\text{Income parity ratio for nonfarm people} = \frac{2,440}{1,480} = 170. 
\]

Or, stated in alternative form, income parity favors nonfarm people:

Economic writers [2, p.52, and 3, p.78] have pointed out that one's economic position is a function of two measures, income and net worth, the former being considered the flow and the second the stock.

It is clear that while nonfarm people are in a superior position with respect to income (income parity = 170), they are in an inferior position with respect to net worth (net-worth parity = 22).

A dollar of income may be converted to net worth by the process of saving, and net worth may be rendered spendable by dissaving. In working out their economic situation, farm and nonfarm people are in position, within limits, to influence the magnitude of these two components of well-being. It is clear that the efforts to lift the incomes of farm people in the direction of parity have been blunted by the propensity to convert this improved financial competence into added net worth. Rising land values are the major manifestation of this phenomenon.

The relevant principle is the Pareto optimality concept that the marginal rates of substitution between any two products must be the same for any two individuals that consume both.\(^3\)

Let one individual be a representative farm family.

\(^1\) Figuring 3.5 million farm families and 42.9 million nonfarm families.

\(^2\) Computed from USDA figures [7, p.486].

\(^3\) The theoretical background for this concept is to be found in Reder [5, Chap. 2] and Pugh [4]. The concepts also appear in Samuelson [6, Chap. 8, esp. pp.236-241].