# THE TRANSPORTATION INDUSTRY AND EXCESSIVE COMPETITION

DR. FREDERICK C. THAYER

DR. THAYER: I don't have any jokes, because I don't regard this as funny. What you are about to hear is I hope nonpartisan and nonideological. I don't have any more love for the state of political science than of economics. And I don't have any association with any of the groups that are usually involved. I wrote one paper for a trucking association one time in which I told them that their own policy stance toward regulation was crazy and they should change it.

What I usually do in presenting my own ideas, economists call them insane, as in the recent book I did on making a case for regulation, so I'm going to rely a lot upon the words of others to argue a different point of view concerning the past, the present and the future.

I'm going to begin with an economic historian's reprise of the Great Depression of the 1890's and what had caused it.

> Many industries, and particularly the railroads, had expanded their activities far beyond market demand. During the 1880's, almost 74,000 miles of railroad were built, more than during any previous decade.
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> Much of this expansion was dictated not by any reasonable estimate of traffic, but by the pressure of competition. Each road recklessly and hastily threw up lines that were not needed through miles and miles of uninhabited wilderness, merely to ensure that another road would not claim the territory first.
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> Inevitably, enterprises built on dream and credit collapsed; when the dreams failed to materialize, credit evaporated.
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> The fortunes of other industries like steel were bound up with those of the railroads, and when the railroads began to fall in the summer of 1893, the

failure spread to other sections of the economy with 32 steel corporations failing in six months in1893.

Economic activity had become interdependent in the weakness of the heart of the system and feebled the rest. The same conditions characterized banking. Formerly, failures in one part of the country had not necessarily caused failures in other parts.

By 1890, banking had become centralized in New York, where a large proportion of the reserve capital inexorably gravitated. These reserves had been freely used in speculation.

[The question is why?]

When stocks fell, city banks fell and, since the city banks held up the 60 percent of the reserves of other banks through the country, the panic, once it had seized New York, almost immediately became nation-wide.

Now, if you begin with the assumption which was widely held then that the problem was excessive competition, then you understand that what you are dealing with is what we know, of course, as the problem of the captive shipper, where on the competitive routes you have price wars, otherwise you have monopoly pricing because of captive shippers.

Now, the point of this is that when you regulate industry because of excessive competition, and you then use a grandfather clause to license all existing firms, you are merely perpetuating excessive competition.

Restriction or regulation of entry without regulation of capacity, or what we might call trip frequency on city pairs or traffic lanes, that kind of regulation merely perpetuates and encourages excessive competition. Merely regulating the entry of firms is not regulation.

Therefore, with an occasional and temporary exception, as in the early seventies with respect to the airlines, *the transportation industries have never really been regulated in the conventional sense of the term.* They have not been regulated in any real way. It is small wonder then that the ICC and the CAB did not do a terribly effective job of regulating those industries.

I am not, therefore, of the previous status quo with respect to these regulatory agencies. In my view, the transportation industries have always been under-regulated. They have been partly regulated only after the failure of free markets in each and every case.

Now that means that the behavior of supposedly regulated firms, which was in fact inefficient because we were perpetuating excessive competition, was the behavior of competitive firms, not monopoly firms.

The perpetual problem of the transportation industries across-the-board has been excessive capacity from day one. It has never changed. It is simply a little worse now. When you're talking about failures and bankruptcies, et cetera, they are connected with the cause of depression, not the effect.

With respect to the great crash of the 1930's, for example, it is not correct, as OMB Director Miller said this morning, that the idea of regulation was a New Deal idea. It was not. Hoover and Roosevelt agreed as to the cause of the Great Depression. Both labeled it: destructive and excessive competition. And the initial programs of the New Deal, which were not supported by any school of economics, including the Keynesians, were almost identical with what Hoover had proposed himself in 1931.

There was a difference, yes. But the problem here is that we are dealing with a situation where, at the time, many non-economists and many politicians agreed that the problem that they were looking at in the 1930's was really understandable as too much competition.

*The New York Times* praised the bituminous coal industry in 1931 for suggesting a form of economic regulation, noting that all the agencies that had examined the industry had blamed unregulated competition for its problems. There were many bills introduced in Congress to authorize curtailment of production. And railroad executives routinely met to try and reduce preventable and competitive waste. Even professors at Harvard, at a time when economics occasionally studied how industries actually operated, noted that competition must be restrained with respect to trucking, rail and other industries.

The point of this is that excessive competition at that time was understood to be the cause of depression. Depressions are not caused by protectionism, lack of liquidity, anti-Semitism (as one Nobel Laureate economist would put it), nor by stupid managers, nor by lazy workers.

A few notes on what has happened in recent years. Air fares have not declined. Despite the invention of hypothetical data by think tanks, including a famous one in this town, the relationship between average fares paid and the consumer price index is the same as it has been for about 50 years. The fares go up on the average much less than prices in general go up.

Yes, there are lots of discount fares and there are all sorts of inequities built in to the system, with people paying very, very high fares on the equivalent of captive routes, and lower fares on the tourist routes.

There is poor service, and it is increasingly getting worse. There are monumental inefficiencies in the airlines these days because of the most grossly inefficient pattern of operation ever devised; everybody is using hub spoke systems and asking travelers, for example, to travel from Pittsburgh to Denver and Los Angeles by going through Newark. The congestion which the National Transportation Safety Board constantly warns about and which Congress is getting upset about is itself a by-product of deregulation.

I acknowledge that in the scheduled airlines there are no more fatalities yet than there used to be. But this has always been the case except for really unusual periods, such as immediately following World War II, when we had something like 3,000 airlines trying to start up. You don't usually get a really statistical measure in the airline business; you have to investigate individual accidents.

As the former Safety Chief of the National Transportation Safety Board has been trying to argue again and again, many recent airline accidents bear the footprints of deregulation. This ought to be well known around Washington, but it is ignored.

There are incredible fines being levied by the Federal Aviation Administration for violations of safety. and it is no answer to say that the FAA is doing their job for the first time.

As in the saturated airports now, we are stumbling into reregulation via regulation of landing slots and terminal gates. This is a form of regulation that is tougher to carry out than any ever done before. If Pan American, for example, pulls out of the shuttle routes because it loses too much money on the shuttle routes between Boston and Washington, will the Department of Transportation have to insist that yet another competitor go in there with yet the same number of flights on that route and lose the same amount of money in order to preserve competition?

With respect to trucking, I finally did hear one bit of common sense here, that there seems to be a decline in safety. Yes, there are low rates, Yes, there is a great deal of union busting, but nobody ever loved the Teamsters.

As Mr. Fryer pointed out, watch television from night to night and you'll hear it all the time; where the drivers come on television and say, "I don't want to drive 25 hours nonstop. I don't want to pop pills. I want to drive within the rules. But, if I do, I'll go out of business."

You cannot blame this on greedy firms and drivers. You cannot blame it on bad apples. It borders on criminal negligence to take no note of this and to say that all that all we need do is pass a law asking for enforcement of safety regulations. When everybody feels compelled to cheat, an army of inspectors cannot find them all.

Bipartisan union busting is all over the place these days. You find that Northwest and Republic, where we have two-tier labor systems, you are getting what some people predicted when you have greatly unequal pay for equal work. The tension in the cockpit and the tension in the crew business and the tension around the airline becomes unmanageable. Sheer hatred takes over, and you are even getting reports of sabotage.

The problem is not restricted to transportation industries. I do not believe that bank managers, for example, are born criminals. But when there is intensive deregulation and competition in the banking business and when you must fight to get depositors' money, you will launder the money that comes in your front door because you believe your competitor will launder it. In so doing, you fail to report large cash deposits to the government, thereby aiding and abetting the drug trade That's criminal negligence.

The same thing is true with respect to Wall Street. I note that Mr. Shad is the head of a group that wants to provide $30 million to Harvard to study Ethics. When you have intensive competition, people are going to cheat. We have recent cases of that in research grants at Harvard. If you have a lot of competition for the money on the research grants, you'll lie a little bit when the research is involved.

Now all I'm saying is: Ethics is the first loser when you have all out, complete competition across-the-board — unregulated competition.

My experience is a little bit different than was portrayed by at least one speaker on the previous panel. My experience has been that Congressional committees, when pursuing a given course, do not look closely for all the information and lots of people who cannot be clearly identified as pro-deregulation are simply not asked to testify.

Monumental research was available before regulatory reform of the trucking industry to show that in the long period of time since the regulation of the trucking industry, the safety records of the exempt truckers — and there's always been a lot of them, as you all know — the safety records of the exempt truckers were incomprehensibly worse than those of the regulated truckers.

By flooding the roads now with more and more independent truckers, we have simply multiplied that. The States are overwhelmed because the federal government wants to get out of the safety business and the States can't afford to take it over.

It took Great Depressions to bring regulation in earlier times. It took a Depression in the Middle West on the farms in the 1880's , and it took the Great Crash of the 1930's.

We have now, since 1975, the third worst record on unemployment rates in the past century. Things have been worse only during the Great Depressions of the 1890's and the 1930's. Most of our industrial partners are worse off than we are, and Japan's unemployment now is rising quickly enough now to approach social crisis for that country.

Taking the two Great Depressions of the past century and what historians said about them and what concerned Presidents said about them, it seems that there is no answer to such problems except to restrict or restrain competition in some way in a whole host of industries, and that this is not an individual problem for a given society but it's a multi-lateral and, indeed, almost global problem.

It may not be possible. I grant you that. But I urge you to consider the possibility that if we had spent, and if other countries had spent the money in the 1930's that they spent in the 1940's to fight a war, and if they had spent it in the 1930's on truly massive quality of life projects — those things that we now call infrastructure, quality of life, environment, pollution control and education — if they had spent it during the thirties, there very likely would not have been a war.

Ultimately, there is no other answer, because the textbook version of economics, which on the one hand says that anything you produce can be sold and, therefore, excessive capacity is impossible, and says on the other hand that we must have maximum competition so that consumers can have the greatest number of choices, those two principles collide.

The competitive principle wins out and when it does we have depressions.

But, of course, since there's no economic definition for a depression, I suppose that's impossible, too.

Thank you.

MR. ALEXIS: Our second speaker will be Dr. Thomas Gale Moore.