ENCOURAGING COOPERATION AMONG COMPETITORS: THE CASE OF MOTOR CARRIER DEREGULATION AND COLLECTIVE RATEMAKING: William B. Tye. Westport, CT: Greenwood Press, Inc., 1987, 203 pp.

by JOHN DAVID HEALY*

William B. Tye sets the tone for his discussion of motor carrier deregulation and collective ratemaking in the epigraph to one chapter in the book. Quoting from former Presidential Economic Adviser Walter W. Heller, he writes, "An economist is a person who, when he finds something that works in practice, wonders if it will still work in theory." Dr. Tye basically contends that collective ratemaking serves several valuable purposes even in the era of deregulation, and that critics of collective ratemaking have preconceived notions of how the ratemaking process should work.

Tye is an economics and management consultant with Putnam, Hayes & Bartlett, Inc. Widely published, he has appeared as an expert witness and served as National President of the Transportation Research Forum in 1983.

Tye assumes that deregulation of motor carrier entry is here to stay. Free entry is accompanied by the right of independent action (IA). Carriers can and do freely "flag out" of rate bureau tariff to meet competitive conditions. According to the book, carriers filed 1,736 IA's during October-November of 1981; Tye states, "The regulatory deterrent to rate cutting is virtually non-existent." Carriers now compete freely on rate matters. What purpose, then, is served by permitting the existence of rate bureaus?

Tye argues that rate bureaus serve a number of useful functions for both carriers and shippers, even if it be true that carriers can readily abandon the published bureau tariff. "Efficient provision of integrated nationwide service," he replies, "must start with a common set of price and service standards established by collective action . . . it would be grossly inefficient to have a separate rate for every bilateral agreement between carriers applying to every origin and destination and every commodity." "It is difficult to believe that with the loss of antitrust immunity for classification and joint-line rates, a list of carriers occupying 110 pages of fine

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print in the National Motor Freight Classification would somehow join together under the direction of the 'Invisible Hand' to establish a consistent set of classification, points, rates, and tariff rules for joint-line rates." In fact, he believes that in the absence of bureaus, monopoly practices might increase as few carriers would be able to meet the increased transaction cost involved in pricing each and every shipment handled. While carriers could conceivably establish agreements on rate practices without antitrust immunity, Tye argues that the specter of possible criminal and civil penalties for engaging in borderline conduct would have a chilling effect on carrier negotiations. Nor would a ban on bureau-established single-line rates succeed—it would be just too difficult to administer. "The cooperation required to establish such tariffs," Tye contends, "inherently raises antitrust concerns because it is inefficient to provide for individual bilateral interline agreements that are so idiosyncratic in their applicability that they do not also apply directly to markets where one or more of the carriers also serve single-line traffic."

On the customer side, collective rates furnish "a convenient starting point for price negotiations for commodity rates, IA's, discounts, and so on." "In the trucking industry," Dr. Tye continues, "individual transaction costs (including antitrust compliance and uncertainty) are high, and the benefits of cooperation are often appropriable by nonparticipants."

It has been suggested that third parties be enabled to design carrier tariffs, similar to existing computerized airline reservation systems. Dr. Tye contends, however, that computers simply cannot handle the "complete market access function." Shippers also profit from rate bureaus because they receive the protection of printed rates and the advantage of a price ceiling based on the published bureau tariff.

One could argue strongly that the problem with motor carrier deregulation was that it handed a victory to theoreticians who had little experience with the actual industry operation. They had blind faith in Adam Smith's Invisible Hand and forgot to check the fine print in Paul Samuelson's *Economics* text about preconditions to proper pricing structure under actual conditions of competition. Among other parameters, deregulators needed a better grip on the role of information cost in selecting carriers. (Perfect competition assumes costless market information.) Thus, Dr. Tye's argument seems entirely reasonable and very effective.

On the other hand, Tye has merely summarized the existing literature. While his footnotes and tables make extremely perceptive reading, there is little original research. Also, a strong advocate of abolition of rate bureaus could ask, "Since a declining percentage of traffic actually moves in joint-line service, why should this bastion of monopoly continue to exist?" The mere presence of the bureaus on the scene may encourage collusion rather than vigorous competition, according to this ar-

gument. Also, there is the view Dr. Tye himself acknowledges that if the carriers *think* they have a monopoly, they can do a lot of short-term damage by setting artificially high rates until competitors can bring new production factors into the field. Tye notes the Arab oil embargo as an example of this type of behavior. However, as Dr. Tye responds if this be so, the long-run losers "will be the incumbent carriers themselves."