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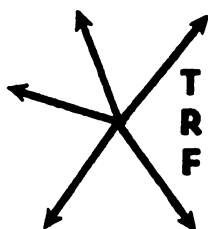
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TRANSPORTATION RESEARCH FORUM

Rate Bureau Cost and Benefits: The Carrier Perspective

by *Garland Chow** and *Richard F. Poist***

INTRODUCTION

MANY MOTOR CARRIER rates are set collectively in the regulated trucking industry. This is accomplished through the regional rate bureau which is an intramodal organization of carriers established to jointly consider rates, classifications, divisions, and other pricing matters in that region.¹ Under ordinary circumstances such collective action would be a violation of the Federal Antitrust laws. However, Congress exempted rate bureaus from the Federal Antitrust laws by passing the Reed-Bullwinkle Act.²

The antitrust exemption for rate bureaus has been a source of controversy from its inception and this controversy has taken heightened importance in this decade of rapid price inflation. The Department of Transportation has repeatedly called for reducing or eliminating the role of the rate bureau in its legislative program for regulatory reform.³ The ICC concluded one rate bureau investigation in June 1975 and ordered twelve procedural and organizational changes.⁴ The ICC started two new proceedings in January 1976, to:

(1) reconsider existing section 5a exemptions and, (2) determine if terms and conditions on railroad rate bureaus established by the Railroad Revitalization and Regulatory Reform Act of 1976 should be applied to other modes.⁵ The Senate Subcommittee on Antitrust and Monopoly held hearings on Freight Rate Competition in the Motor Carrier Industry and a bill to remove the antitrust exemption is currently before the Senate Commerce Committee.⁶ The final report of the National Commission for the Review of Antitrust Laws and Procedures states, "The Reed-Bullwinkle Act should be repealed."⁷

The purpose of this paper is to examine some of the issues raised in connection with the antitrust exemption from

the carrier perspective. The carrier perspective can differ from the perspectives of the industry trade organizations and the rate bureaus who have expressed strong opposition to any proposals to weaken the rate bureau structure. It is frequently alleged that large carriers control the rate bureaus, using collective action as a tool to dampen the competitive inclinations of the smaller carriers. Likewise, it is frequently asserted that bureau carriers use the collective power of the rate bureau to restrict and contain independent ratemaking of both bureau and non-bureau members. Finally it is often claimed that the rate bureau's application of average cost pricing prevents efficient carriers from taking advantage of their efficiency and prevents inefficient carriers from charging rates commensurate with their level of costs. This analysis will differentiate between the perceptions of small and large carriers and between the perceptions of carriers with different propensities to act independently of the rate bureau. The information available did not allow a differentiation between efficient and inefficient carriers.

This examination of the carrier perspective on rate bureau issues is of no minor significance since several carriers have made public testimony both in support and in opposition to continued collective ratemaking.⁸ Do the viewpoints expressed publicly represent the views of an important segment of trucking or that of a vocal minority? If it is the former, it is clear that modification of collective ratemaking is in order.

METHODOLOGY AND COLLECTIVE RATEMAKING ISSUES

A mail questionnaire was employed to collect data from carriers affected by the actions of a major rate bureau. The questionnaire was designed to solicit responses on the following issues relevant to the current debate over collective ratemaking.

- (1) Whether collective ratemaking enhances one or more National Transportation Policy Goals.

Carrier respondents were asked to agree or disagree with statements asserting that the rate bureau and collective

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ratemaking enhances specific goals.

There are numerous goals identified or implicit in the statement of National Transportation Policy and other parts of the Interstate Commerce Act. With regard to the general issue of collective ratemaking, three goals are especially relevant. It is frequently asserted that the collective ratemaking process:

- protects the shipping public from unjust, unreasonable, and discriminatory rates,
 - ensures the shipping public a high degree of rate stability and certainty,
 - facilitates the making of joint rates essential to the availability of joint service.
- (2) Whether any of the goals that justify the collective ratemaking agreement can be accomplished by some other method than collective action.

Carrier respondents were asked to agree or disagree with statements asserting that specific goals would not be achieved without the existence of rate bureaus and collective ratemaking.

- (3) Whether collective ratemaking has harmed interests intended to be protected by the antitrust laws.

Carrier respondents were asked to agree or disagree with statements regarding the significance and nature of competition in trucking. In addition, the carriers were asked questions designed to indicate whether or not bureaus are discouraging rate competition and the extent of that competition.

The questions and issues posed by the questionnaire are based on the premise that the ICC will continue its regulation of entry and rates. The same premises do not exist in all arguments against the existence of rate bureaus. Many arguments that support the abolition of rate bureaus are based on the assumption that the motor freight industry is workably competitive. The underlying premise is that there should neither be rate bureau exemptions nor economic regulation of rates or entry.

Two observations are relevant. First, it is not evident to every academician, transportation policy analyst, and other interested parties that the motor freight industry is workably competitive.⁹ Our knowledge of the structure, conduct, and performance of unregulated or regulated trucking is woefully incomplete and we are only just beginning to recognize that the trucking industry may be better viewed as several industries.¹⁰ Basic questions such as whether economies of scale exist in trucking remain controver-

sial despite the plethora of recent empirical evidence.¹¹ Thus the validity of the expected performance of various deregulation measures are only as good as the underlying assumptions about market structure, and these assumptions are not as certain as they are frequently made out to be.

Second, in analyzing prospective policy changes, what is being changed must be separated from what is not being changed. The purpose of this investigation is to identify consequences resulting from changes in regulation of rate bureaus alone and not changes in overall rate or entry regulation. This was made explicit to the respondents.

Questionnaires were mailed out to 850 carrier members of the Middle Atlantic Conference Rate Bureau (MAC) and a systematic sample of 306 non-bureau carriers who have filed competitive, non-bureau tariffs in the Middle Atlantic territory. A response rate of 35% (N = 309) was realized for the bureau Carrier group and 9% (N = 29) for the non-bureau carrier group. The response rate for the non-bureau carriers was low and any conclusions made from these responses must be tentative.

Bureau carriers were classified in two distinct ways. First, bureau Carriers were classified by size. As shown in Table 1 a significant number of bureau carriers in all size classes responded. Class I bureau carriers will be classified as large, and Class II and Class III bureau carriers will be classified as small carriers. The average intercity Class I general commodity carrier earned \$36,000,000 annually in 1976. This is twelve times more earnings than the largest Class II carrier and 72 times the earnings of the largest Class III carrier.

Secondly, the bureau Carriers were classified by whether they filed their own company tariffs independent of the rate bureau. One hundred forty nine (149) carriers indicated that they published their own LTL or TL tariffs and are identified as the 'independent rate' group for this analysis. It is assumed that these carriers publish their own tariffs to be price competitive and represent an industry segment that would object strongly to collective ratemaking if it retards the right to independent ratemaking. The 'non-independent rate' group of carriers is comprised of carriers relying solely on bureau tariff publication. An alternative assumption is that the carriers that do not publish independent rates have been prevented from doing so by the collective ratemaking system. Both the independent and non-independent carrier groups were made up of near-

TABLE 1

SIZE OF RESPONDENT CARRIERS BY I.C.C. CLASSIFICATION

<u>Classification</u> ¹	<u>Bureau Carriers</u>	<u>Non Bureau Carriers</u>	<u>Total</u>	<u>Percent</u>
Class I	125	10	135	40.1
Class II	113	16	129	38.3
Class III	68	2	70	20.8
Unclassified	3	-	3	.8
TOTAL	309	28	336	100.0

¹ Class I — Annual revenue \geq \$3,000,000

Class II — Annual revenue between \$500,000 and \$3,000,000

Class III — Annual revenue less than \$500,000

ly equal proportions of large and small carriers.

All but two of the bureau carriers identified themselves as general commodity carriers. In contrast 21 of 27 non bureau carrier respondents identified themselves as special commodity carriers. The non-bureau carriers also tended to be small as shown in Table 1. The non-bureau carriers were considered as one group due to the small number of responses.

CARRIER VIEWS ABOUT THE ROLE OF RATE BUREAUS IN ACHIEVING THE GOALS OF NATIONAL TRANSPORTATION POLICY

Carriers were asked questions relating to the role of rate bureaus in preventing price discrimination, maintaining rate stability, and maintaining joint line rates and service. The summaries shown in Tables 2 to 7 indicate that the large majority of the carriers, regardless of classification, view the rate bureaus as a valuable and necessary instrument used in the achievement of said goals.

The pattern of responses between the large and the small bureau carriers indicates that large carriers agree more strongly that rate bureaus are beneficial. However, the total level of favorable response is nearly identical. For example, 68% of the small bureau carriers strongly agree that rate discrimination would occur without rate bureaus as opposed to over 76% of the large bureau carriers as shown in Table 2. Yet 99.5% of the small carriers agree or strongly agree while only 95.9% of the large carriers both agree or strongly agree. A

similar response pattern is observed between bureau carriers who publish their own tariffs and those that do not, with the carriers which publish their own tariffs, agreeing less strongly.

While the non-bureau carriers agreed that rate bureaus enhance the said National Transportation goals less strongly than the bureau carriers, the majority of their responses were still favorable.

The Chi Square statistics displayed in Appendix 1 indicates that perception of benefits between large and small carriers were significantly different for the responses summarized in Table 2 and 4 only. None of the differences in response between the independent carriers and non-independent carriers were statistically different as measured by the Chi Square statistic. Chi Square measures of significant difference in the responses between the bureau and non-bureau carriers were not calculated because of the large difference in sample sizes.

The non-bureau carriers placed the least value to rate bureaus with regard to its role in maintaining joint line service and rates. For example, only 65% of the non-bureau carriers agreed that rate bureaus are essential to the availability of joint rates as shown on Table 7. This may be explained by the dominance of TL operations for the non-bureau carriers which normally is produced as single line service. In fact most of the remaining non-bureau responses were neutral (30.8%) rather than negative suggesting that the non-bureau carrier doesn't have an opinion simply because of the lack of applicability to their operations.

TABLE 2

RATE DISCRIMINATION WOULD OCCUR WITHOUT RATE BUREAUS

RESPONDENT GROUP		STRONGLY AGREE	AGREE	NEUTRAL	DISAGREE	STRONGLY DISAGREE
ALL BUREAU CARRIERS	PERCENT:	71.2	26.8	1.0	.7	.3
SMALL BUREAU CARRIERS	PERCENT:	68.2	31.3	.6	0	0
LARGE BUREAU CARRIERS	PERCENT:	76.4	19.5	1.6	1.6	.8
BUREAU CARRIERS PUBLISHING OWN TARIFF	PERCENT:	67.8	28.1	2.1	1.4	.7
BUREAU CARRIERS NO INDIVIDUAL TARIFFS	PERCENT:	74.4	25.6			
NON-BUREAU CARRIERS	PERCENT:	29.6	55.6	0	11.1	3.7

CARRIER VIEWS ABOUT THE NATURE AND EXTENT OF COMPETITION IN THE TRUCKING INDUSTRIES

Carriers were asked to indicate their level of agreement or disagreement with the following statements about competition and ratemaking.

1. There is significant rate competition for freight traffic.
2. There is significant service competition for freight traffic.
3. Different rates reflecting different levels of service exist for freight traffic.
4. Independent Action through bureau procedure is difficult to get now-a-days.*

1. There is significant rate competition

*Not applicable to non-bureau carrier respondents.

TABLE 3

THE RATE BUREAU'S ACTIVITIES ASSIST IN THE PREVENTION OF RATE DISCRIMINATION

RESPONDENT GROUP		STRONGLY AGREE	AGREE	NEUTRAL	DISAGREE	STRONGLY DISAGREE
ALL BUREAU CARRIERS	PERCENT:	60.4	37.4	1.0	1.0	.7
SMALL BUREAU CARRIERS	PERCENT:	56.5	41.2	1.1	.6	.6
LARGE BUREAU CARRIERS	PERCENT:	67.5	29.3	.8	1.6	.8
BUREAU CARRIERS PUBLISHING OWN TARIFF	PERCENT:	55.1	40.1	2.0	1.4	1.4
BUREAU CARRIERS NO INDIVIDUAL TARIFFS	PERCENT:	65.4	34.0		.6	
NON-BUREAU CARRIERS	PERCENT:	25.9	55.6	3.7	11.1	3.7

TABLE 4

RATE INSTABILITY AND UNCERTAINTY WOULD OCCUR WITHOUT RATE BUREAUS

RESPONDENT GROUP	STRONGLY AGREE	AGREE	NEUTRAL	DISAGREE	STRONGLY DISAGREE
ALL BUREAU CARRIERS	PERCENT: 71.4	27.3	.7	.3	.3
SMALL BUREAU CARRIERS	PERCENT: 64.8	34.1	.6	.6	
LARGE BUREAU CARRIERS	PERCENT: 81.3	17.1	.8		.8
BUREAU CARRIERS PUBLISHING OWN TARIFF	PERCENT: 64.4	32.9	1.4	.7	.7
BUREAU CARRIERS NO INDIVIDUAL TARIFFS	PERCENT: 77.8	22.2	0	0	0
NON-BUREAU CARRIERS	PERCENT: 37.0	40.7	3.7	18.5	0

5. Rate changes for non-bureau (carrier) tariffs are difficult to get now-a-days.

Separate responses for each statement were requested for LTL and TL traffic.

The large majority of the carriers agree that significant rate competition, service competition and significant rate-service combinations exist in both the LTL and TL freight markets. For example, no less than 88% of any bureau group and 78% of the non-bureau carriers agreed or strongly agreed that significant rate competition exists in the less than truckload freight market. No less than 91% of any carrier group agreed or strongly agreed that significant rate competition exists in the truckload freight market.

The pattern of responses observed between large versus small, independent versus non-independent bureau and bureau versus non-bureau carriers observed earlier is again evident. Small carriers agreed as frequently but less strongly than larger carriers. Bureau carriers who issue their own tariffs responded not too differently from carriers who do not. Again the majority (but a smaller percentage) of the non-bureau responses were in agreement with the bureau carrier responses. It is notable that the non-bureau carrier viewed the present level of competition on the TL markets as more significant than in the LTL markets. For example, over 91% of the response of the non-bureau carriers viewed

TL rate competition as significant but only 79% viewed LTL rate competition as significant. Again this may reflect the non-bureau's carrier's greater familiarity with the TL freight market.

The majority of the carriers do not feel there is any difficulty in obtaining independent rates whether it is through bureau procedures or through publication of individual carrier tariffs. With one exception, fewer than 20% of the responses in any carrier grouping agreed or strongly agreed with statements indicating difficulty in obtaining independent rates. Consistent with this previous pattern of responses, the smaller carriers disagree less strongly and less frequently than the larger carriers that independent rates are difficult to obtain. However, the differences are due to the large number of neutral responses made by the smaller carriers. The response closest to being critical of the rate bureau process is the non-bureau carrier response to the "ease of obtaining independent—non-bureau TL rates" where 34.7% of the responses indicated difficulty in obtaining independent TL rates and 66.5% indicated no difficulty.

This paper will not report on the more detailed analysis of the types of services that carriers receive from rate bureaus. It can be assumed that carriers will have to obtain services presently provided by rate bureaus from other firms or from their own efforts. Each carrier was asked to indicate their level of agreement (or

TABLE 5

RATE BUREAUS HELP PREVENT RATE STABILITY AND UNCERTAINTY

RESPONDENT GROUP		STRONGLY AGREE	AGREE	NEUTRAL	DISAGREE	STRONGLY DISAGREE
ALL BUREAU CARRIERS	PERCENT:	61.6	36.4	1.0	.3	.7
SMALL BUREAU CARRIERS	PERCENT:	57.0	41.3	1.1	0	.6
LARGE BUREAU CARRIERS	PERCENT:	69.1	28.5	.8	.8	.8
BUREAU CARRIERS PUBLISHING OWN TARIFF	PERCENT:	57.1	39.5	1.4	.7	1.4
BUREAU CARRIERS NO INDIVIDUAL TARIFFS	PERCENT:	65.8	33.5	.6	0	0
NON-BUREAU CARRIERS	PERCENT:	33.3	40.7	11.1	11.1	3.7

disagreement) with a statement that carrier costs will go up without rate bureaus. The results indicate that the majority of the bureau carriers feel that the costs of these services will rise.

SUMMARY AND IMPLICATIONS

There is significant controversy as to whether motor carrier rate bureaus should retain their antitrust immunity. Whether the activities performed by rate bureaus benefit the shipping public depends on whether such activities enhance the achievement of National Transportation Policy goals and to what degree this is offset by reduced competition. This paper analyzed survey responses which represent the carrier perspective of the latter costs and the former benefits of rate bureaus. The survey was made in the context of the continuation of present ICC regulation of rates and entry.

The responses indicate that the majority of the carriers perceive the rate bureau as critical to preserving rate stability, maintaining joint line rates and services, and preventing rate discrimination. These are all widely recognized goals of National Transportation Policy. Theoretically, any collusive structure, i.e., the rate bureau cartel, will lead to noncompetitive performance and conduct in the form of decreased rate and/or service competition. However, a majority of the carriers agree that significant rate and service competition exists in

both the LTL and TL freight markets. Based on these responses, it can be concluded that the majority of the responding carriers feel that rate bureaus do provide essential benefits without seriously reducing competition.

The frequency and degree of independent action and bureau protests has been documented elsewhere and the impact on competition is subject to considerable debate. It is notable that the majority of carrier respondents agree that significant rate competition exists and agree that independent rates are not difficult to obtain.

The responses verified the notion that the intensity of competition differs slightly between the LTL and TL markets. The results indicate that the carriers perceive slightly less rate competition, somewhat fewer rate/service combinations, and somewhat greater difficulty in getting independently filed rates for LTL traffic than for TL traffic. However, it is not clear that the existence of rate bureaus are the cause of this difference since it is well recognized that tendencies toward industry concentration are much evident in the LTL segment than the TL segment of traveling.

The responses suggest that small carriers have different attitudes and perceptions than large carriers though these differences are a matter of degree rather than conflict. The majority of both the small and large carriers agree that rate bureaus perform necessary functions but generally a larger percent of large car-

TABLE 6

**JOINT LINE AGREEMENTS WOULD BE CANCELLED AND
THE BENEFITS OF JOINT LINE SERVICE LOST
WITHOUT RATE BUREAUS**

RESPONDENT GROUP		STRONGLY AGREE	AGREE	NEUTRAL	DISAGREE	STRONGLY DISAGREE
ALL BUREAU CARRIERS	PERCENT:	58.7	34.0	5.3	2.0	0
SMALL BUREAU CARRIERS	PERCENT:	57.8	35.5	5.8	1.7	0
LARGE BUREAU CARRIERS	PERCENT:	61.6	31.2	4.8	2.4	0
BUREAU CARRIERS PUBLISHING OWN TARIFF	PERCENT:	56.3	34.7	6.9	2.1	0
BUREAU CARRIERS NO INDIVIDUAL TARIFFS	PERCENT:	60.9	33.3	3.8	1.9	0
NON-BUREAU CARRIERS	PERCENT:	22.2	33.3	37.0	7.4	0

riers agree, more strongly. The majority of both large and small carriers also agree that their costs of operating their business will go up in the absence of rate bureaus and the availability of their services similar pattern of responses was found to exist between bureau and non-bureau carrier respondents.

The evidence does not suggest that large carriers control the rate bureaus

for their benefit and at the expense of their smaller competitors. The efficient development, consideration and publication of rates through the rate bureau process seems to be beneficial to large and small carriers alike. Similarly no significant difference of opinions exists between bureau carriers who publish their own tariffs and those who do not. Finally the views of the non-bureau car-

TABLE 7

RESPONDENT GROUP		STRONGLY AGREE	AGREE	NEUTRAL	DISAGREE	STRONGLY DISAGREE
ALL BUREAU CARRIERS	PERCENT:	60.1	34.9	4.0	1.0	0
SMALL BUREAU CARRIERS	PERCENT:	56.7	37.4	5.3	.6	
LARGE BUREAU CARRIERS	PERCENT:	65.3	30.6	2.4	1.6	
BUREAU CARRIERS PUBLISHING OWN TARIFF	PERCENT:	55.9	37.8	4.2	2.1	0
BUREAU CARRIERS NO INDIVIDUAL TARIFFS	PERCENT:	63.9	32.3	3.9		
NON-BUREAU CARRIERS	PERCENT:	23.1	42.3	30.8	3.8	0

riers who responded did not differ significantly from the bureau carrier responses. In conclusion, the majority of carriers in all of the differentiated segments of the trucking industry perceive

the rate bureau as an important tool for achieving National Transportation Policy goals and reducing carrier costs without seriously reducing the level and quality of competition.

APPENDIX 1

STATISTICAL SIGNIFICANCE OF RESPONSE DIFFERENCES BETWEEN CARRIER CLASSIFICATIONS

The Chi-square test statistics (χ^2) helps us determine whether there is a systematic relationship between two variables. The χ^2 was computed for the relationship between the response to or question and the classification of carrier. The probability of obtaining the computed χ^2 for each relationship is shown below.

Significance Level of χ^2 Statistic For

Table	Large versus Small Bureau Carrier Responses	Independent and Non-Independent Bureau Carrier Respondents
2	.0485	.1341
3	.2620	.0990
4	.0126	.0570
5	.1539	.2582
6	.8143	.6424
7	.2601	.1955

FOOTNOTES

1 A detailed description of rate bureau activities may be found in Grant M. Davis and Charles S. Sherwood *Rate Bureaus and Antitrust Conflicts in Transportation, Public Policy Issues* (New York: Praeger Publishers, 1975), pp. 52-60; *Your Rate Association and You, Partners for Progress* (Akron, Ohio: Eastern Central Motor Carriers Association); Charles Taff *Commercial Motor Transportation* 5th ed. (Cambridge, Md. Cornell Maritime Press, 1975), pp. 374-83.

2 49 U.S.C. 59. The legislative history of the act is traced concisely in James C. Johnson and James P. Rakowski, "The Reed-Bulwinkle Act (1948): A Thirty Year Perspective" *Proceedings of the Nineteenth Annual Meeting of the Transportation Research Forum* (Oxford, Ind.: Richard B. Cross Co., 1978): pp. 20-25.

3 Transportation Regulatory Modernization Act (H.R. 11826 and S. 2842) submitted November 5, 1971 and Motor Carrier Reform Act (U.S. Department of Transportation, Dec. 1976).

4 Ex Parte No. 297, "Rate Bureau Investigation." 849 I.C.C. 861 (1975). The most controversial of these changes appears to be the prohibition against rate bureaus protesting independent actions by its members. This change was challenged in court and upheld on June 1978.

5 Ex Parte No. 297 (Sub No. 3), "Modified Terms and Conditions for Approval of Collective Rate-making Agreements Under Section 5a of the Interstate Commerce Act" and Ex Parte No. 297 (Sub No. 4), "Reopening of Section 5a Application Proceedings to Take Additional Evidence." At the time of the writing of this paper, the

I.C.C. served notice that they will apply to motor carriers the 4-R restrictions on collective rate-making agreements. See *Transport Topics*, p. 1, March 5, 1979.

6 "Kennedy Trucking Probe Shifts Stress to Effect of Limited Entry on Industry" *Traffic World* Aug. 14, 1978, pp. 37-38, "Kennedy Introduces Bill which Immediately Goes to Cannon's Committee" *Transport Topics*, March 26, 1979, p. 1.

7 Final Report of the National Commission for the Review of Antitrust Laws and Procedures Chapter 10, p. 1 (Wash., D.C., 1979).

8 Statements of Jack Beitler, W. J. Beitler Co., William J. Spina, Rite-Way Express, Richard E. Van Winkle, Arbet Truck Lines and Liniel G. Gregory, Jr., Russell Transfer before the Subcommittee on Antitrust and Monopoly, Committee on the Judiciary, U.S. Senate, October 27, 1977, on *Freight Rate Competition in the Motor Carrier Industry*.

9 John C. Spychalski "Criticisms of Regulated Freight Transport: Do Economists' Perceptions Conform With Institutional Realities" *Transportation Journal*, Vol. 14, No. 3 (Spring 1975) pp. 5-17.

10 For a critique of the literature on the economics of trucking see Garland Chow *The Economics of the Motor Freight Industries* (Bloomington, Ind.: Division of Research, School of Business, Indiana University, 1978), pp. 42-100.

11 See Garland Chow "The Status of Economics of Scale in Regulated Trucking" *Proceedings of the 19th Annual Meeting of the Transportation Research Forum* (Oxford, Ind.: Richard B. Cross Co., 1978), pp. 365-72.