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Motor Carrier Use of Owner Operators: Efficiency or Exploitation?

*by David H. Maister**

IN RECENT YEARS a great deal of attention has been given to the problems in the U.S. trucking industry of the owner-operators, those (primarily) one-man, one-truck operators that lease themselves to larger motor carriers and perform the line-haul task on behalf of those carriers. Investigations by the Interstate Commerce Commission,[1] the Department of Transportation,[2] the House Subcommittee on Special Small Business Problems,[3] and even network television companies[4] have all focused upon alleged "abuses" of owner-operators by the motor carriers for whom they haul. Evidence has been presented to show that some carriers have engaged in the following practices: deception in compensating owner-operators by the use of "hidden charges" (i.e. deductions of various kinds are made from the payments due to owner-operators that were not spelled out in the lease contract between the owner-operator and the carrier); unfair recruiting practices such as misrepresentation of earning potentials; non-return or failure to pay interest on escrow accounts; exploitation of (sometimes required) purchases by the owner-operator of equipment and supplies from the carrier.[5]

Although instances of these abuses clearly exist, their extent remains unknown. However, their existence has called into question the whole owner-operator system of the trucking industry, and in particular, the role that regulation has had to play in the creation of the system and its abuses. Concern has been expressed that, independent of these individual problems, the system is potentially "unfair" in that carriers typically retain 25 percent of the revenue from a given load while it is the owner-operator that actually performs the service and bears the risk of owning the equipment.[6] Questions have been raised as to what services the carrier performs to justify the retention of 25 percent of the revenue, and whether at least part of this sum is due not to services performed but to the fact that given ICC control over entry into the trucking industry, owner-operators cannot deal with shippers of regulated commodities directly, but must work through carriers possessing the requisite operating authority.

In addition to these public policy concerns, other considerations lend to an atmosphere of an "owner-operator system crisis." Inflation of both truck prices and fuel costs has significantly changed the economics of being an owner-operator, and some observers have feared for the future of the system unless these economics are altered. Many carriers whom I have interviewed in the past 12 months have acknowledged a "shortage" of owner-operators, and expressed concern at the high rate of turnover they have been experiencing in their owner-operator fleets.

This paper does not attempt a final resolution of these questions. However, I believe that amid all the discussion that has taken place about the owner-operator crisis, there have been a number of misunderstandings and omissions. First, it is clear from the context of the debate that many people believe that the problems of owner-operators are primarily due to the current structure of regulation of the motor carrier industry. Indeed, the House Subcommittee that studied these problems entitled its report "**Regulatory** Problems of the Independent Owner-Operator in the Nation's Trucking Industry" (emphasis added). Owner-operators themselves have sought to improve their situation either by modification of ICC regulations,[7] or by seeking exemption from regulation.[8]

Second, virtually all studies of owner-operator problems have focused upon the owner-operators themselves, without considering in detail the roles, motivations, economics and goals of the carriers that utilize them. In doing so, there has been a failure to consider the owner-operator **system** as a whole and to consider the forces that perpetuate it as a system.

This paper attempts to fill this gap. In so doing, I hope to show that the owner-operator system is **not** a creation of the current regulatory structure. Furthermore, I shall offer evidence to support the assertion that many of the "abuses" referred to as **regulatory** problems of owner-operators would probably continue to exist in the absence of reg-

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ulation. Finally, and most importantly, we seek to understand why the owner-operator system exists, what benefits it offers to carriers, to owner-operators and to the efficient movement of goods and hence to the economy. We hope to demonstrate that rather than being necessarily based on the desire to exploit a captive workforce, the owner-operator system is based upon real economies and that, in many sectors of the trucking industry, it is the optimum form of operation.

THE OWNER-OPERATOR IN OTHER COUNTRIES

The fact that the owner-operator system is not a consequence of the particular regulatory structure of the U.S. is amply demonstrated by the reported existence of a flourishing owner-operator sector, working by leasing themselves to larger motor carriers in Sweden, Great Britain, Australia, and Canada: all countries with experience of unregulated trucking.

Moore[9] reports that, in Sweden, the two firms that dominate long distance (particularly LTL) hauling (together accounting for 90% of the traffic) own almost no trucks themselves, but hire independent truckers who work for them under one-year contracts, receiving, on average, 85% of the revenue.

The recent Price Commission report on the trucking industry in (unregulated) Britain[10] revealed that 20% of the revenues of one-man - one-truck operators was derived from hauls made for other haulage firms and over 9% of the traffic carried by large firms was subcontracted to other haulers. It reports that "sub-contracting is particularly significant between firms operating in the general haulage sector but nevertheless also takes place in other sectors including bulk liquids, tipping and household removals.[11]

In Australia, Rimmer[12] reports a situation remarkably like that of Sweden. A handful of "freight forwarders" dominate the intercity road transport market who employ subcontractors, either on a permanent or itinerant basis to perform the necessary line haul by road. Rimmer notes "The owner drivers who dominated the industry between 1950-60 operating on their own account received reasonable profits from their operations. Since they have switched to subcontracting, following the decision of several of the larger companies to sell their fleets to individual drivers, their profit margins have been cut severely. This sharing of the returns of individual subcontractors is achieved by requiring more than the agreed number of drops, charging a service fee for loading, an insurance premium on a load and stipulating that the truck must be filled with the firm's petrol."[13] It is notable how close these "abuses" in unregulated Australia interstate transport are to those currently of concern in the U.S.

In September 1973, in response to a strike of owner-drivers and subcontractors, the Western Australian government appointed a Commission of Inquiry into the Road Transport Industry of that state, which is de facto (though not dejure) a freely competitive industry. The Commission's report described a picture familiar to anyone who has studied owner-operator behavior anywhere in the world: "The submissions which some of them filled in were woefully inadequate in portraying with clarity operating costs. Many of them kept no proper records at all of expense. Few of them appreciated that in order for them to obtain a fair appreciation of how the business was operating, it was necessary to make an allowance for their own labour at least at the same rate as being paid to driver members of the Transport Workers Union."[14] As Rimmer has also reported for Australia's (unregulated) interstate markets, the Commission observed that "the prime contractors (i.e. the carriers) in effect inform the subcontractors what they will pay them."[15]

In Canada, where each of the ten provinces has a different regulatory environment,[16] the relative use of owner-operators by motor carriers varies widely between the provinces. In unregulated Alberta, over 20% of all motor carrier expenses are incurred by "vehicles rented with driver," i.e. owner-operators.[17] The corresponding figure for the regulated sector of the United States is 12%. (It should be noted that expressing payments to owner-operators as a percentage of total operating expense leads to an understatement of the degree of owner-operator participation in Canadian trucking, since payments to owner-operators are mainly in lieu of line-haul activities. As a percent of intercity mileage, the relative role of owner-operators would be significantly higher.)

High relative owner-operator usage (measured by vehicle rents with driver as a percentage of total expenses) is also reported in the provinces of Saskatchewan (19%) and Manitoba (16%) both of which not only regulate entry into the motor carrier industry, but also prescribe the rates that motor carriers may charge. Relatively low owner-operator usage is reported for Quebec (6%), British Columbia (10%) and Ontario (10%), all of whom regulate entry into their respective trucking industries. It should be noted that this variation between provinces cannot be accounted for by differences in the types of traffic that predominate in the different provinces: correcting for the relative proportions of truckload traffic in each province leaves the same pattern of relative owner-operator usage.[18]

An interesting paradox emerges when one attempts to relate relative owner-operator usage in each province to the regulatory structures of the provinces. The three "high owner-operator usage" provinces include an unregulated province and two that control entry and prescribe rates.

A possible resolution of this slight paradox may be provided by the following explanation. It is of more than passing interest to note that the three "high owner-operator" provinces all are reputed for their low average rates, even after correcting for commodity differences, length of haul, shipment size, and so on. Similarly, the "low owner-operator" provinces (Quebec, Ontario and British Columbia) are the three provinces with the highest average rates in Canada. The U.S. trucking industry also demonstrates this relationship between average rate level and degree of owner-operator usage.[19]

We may push this explanation a little further and offer a more qualitative interpretation. It is perhaps not surprising that the most unregulated province, Alberta, has the highest use of owner-operators. Since competition is more active in that province, with no regulatory barriers to entry, carriers may be less willing to invest in equipment and more eager to pass some of the capital risk on to owner-operators. On the other hand, carriers in Manitoba and Saskatchewan, while they may be protected from "excessive" competition, are faced with low average rates and hence wish to use owner-operators because such individuals are a cheaper method of operating than employee drivers that tend to be less productive and have higher wages. While this explanation cannot be "proven" in any sense of the word, it is, nevertheless, a suggestive one.

The problems of owner-operator "abuse" in Canada also show no relation to regulation. In the most closely regulated province (Quebec), an owner-operator "shutdown[20] in 1974 (against a single carrier), caused by perceptions of poor treatment by the carrier, rapidly turned violent and contributed to a general tightening of that province's regulatory laws with respect to owner-operators.[21] This series of events closely parallels that experienced in the U.S. On the other hand, unregulated Alberta was also led, by complaints of ill treatment similar to those in the U.S., to conduct a review of the owner-operator system in that province.[22]

Before completing our review of the role of owner-operators in foreign jurisdictions, we should note that the lot of the owner-operator in the U.S. exempt sector is not always a happy one. Johnson, President of the Owner-Operator Association of America, had this to say about owner-operators working through brokers in the unregulated agricultural sector: "When you consider that the shipper is inaccessible to the trucker, it doesn't take much imagination to see how this arrangement can be abused. Add to this the fact that the trucker must go wherever the produce is in season and often deals with brokers that he does not know, and you can see that even the exempt trucker is at the mercy of a middleman who can dream up a thousand reasons why he can't pay you yet or why the shipping rate has suddenly changed."[23]

In summary, we can conclude that the owner-operator system (whereby one-man - one-truck operators work by leasing themselves to larger carriers) exists in a wide diversity of regulated and unregulated environments, and that the problems faced by owner-operators in their treatment by carriers also exhibits remarkable commonality across the world. This conclusion suggests that we should not look to regulation to account for the existence (and problems) of the owner-operator system, but instead look for some other rationale. What might this be? Why do so many motor carriers elect to operate with owner-operators rather than company equipment? Why would owner-operators in an unregulated environment lease themselves to carriers rather than operate in their own right? It is to these questions that we now turn.

WHY DO MOTOR CARRIERS USE OWNER-OPERATORS?

The reasons given by motor carrier executives for their use of owner-operators are many and various. In most cases, I have found that no single reason could be given by an individual manager or company owner: the motivations were a complex mix of various distinct objectives. One of the most common reasons given is that by signing on owner-operators when traffic levels increase, and terminating the lease contract when thy decline, a motor carrier can better match its available equipment capacity to the level of demand, and avoid bearing the cost of idle equipment when traffic levels do not warrant it. I term this the **avoidance of capital risk** rationale, since the motor carrier is passing on the capital risk (i.e. the chance that revenue opportunities do not warrant the investment in equipment) to the owner-operator. It should be noted that the source of the capital risk may take two forms: annual seasonality and long-term uncertainty. In the former case, the variation in demand levels is relatively predictable, as in the case of Household Goods carriers. They know that May through September is their busy period, and that relatively few household moves take place in the winter months. By using owner-operators, these carriers are better able to **match supply and demand.** In the case of unpredictable demand fluctuations in the long term, a carrier may use owner-operators without knowing in advance when, if at all, it will terminate the lease contracts, but it has the security that if demand does decline, the carrier will not have to meet the fixed obligations of making payments on the vehicles (or, it should be noted, paying for an idle work force). The owner-operator is **absorbing uncertainty** for the carrier.

Apart from these considerations, some motor carriers use owner-operators because they believe that they are more productive than employee drivers driving company equipment. The source of this additional productivity, if true, is said to come from the fact that since the owner-operator is paid only for the work that he performs, he has the incentive to work hard, to work efficiently and to solve problems himself (or herself) rather than appealing to supervisory or managerial direction. This rationale may be termed that of **entrepreneural incentive**, and may take many forms. It has been observed[24] that owner-operators tend to drive more miles per year than company drivers. Because he is responsible for his own maintenance, the owner-operator will solve minor breakdown problems on the road and proceed whereas a company driver may wait for a repair service to be sent from the carrier's terminal. If there are problems or delays in getting loaded or unloaded at a customer's dock, the owner-operator has the incentive to solve these problems directly, whereas a company driver, who might be paid to some extent by the hour, would have a lessened incentive to "get rolling" again. Since the vehicle is his own, the owner-operator has a greater incentive to take care of the tractor than the company driver, and fewer maintenance problems should arise.

Some common elements of the two previously given rationales can be combined to yield a third, distinct, benefit to the motor carrier in using owner-operators. This is the fact that the use of owner-operators gives a carrier the **capacity for rapid growth.** Since the owner-operator pays for the vehicle, a carrier is not bound by its own borrowing capacity as to the number of vehicles it can add to its fleet in a given year. This advantage may be of particular importance to a small carrier attempting to grow rapidly. However, the increased ability to grow provided by owner-operators derives not only from the **relaxed capital constraint,** but also from the fact that the owner-operator is not only a driver but, for example, is also his own mechanic. In using an owner-operator, a carrier not only avoids buying a new truck, but also avoids the expense and managerial problems of hiring (and training) a new driver, and increasing the workload on its maintenance facilities. Because the owner-operator has the entrepreneural incentive, he takes on many of the self-supervisory and self-management tasks that would otherwise have to be provided by the carrier in the form of supervisory and managerial personnel. In principle, this should allow the carrier to **avoid the managerial capacity constraint** that might otherwise limit growth capability.

The problems of supervision are not trivial. Consider, for example, the differences between a regular-route carrier of general commodities (generally less than truckload) and, say, an irregular-route (non-radial) carrier of (truckload) special commodities. Management control of the driver workforce in the former case is relatively simple, since most drivers will be operating between fixed carrier termini: it is easy for the carrier to measure, for example, the time-in-transit that driver takes to complete the assigned run. Standards can be established for these regular runs, and monitored on a regular basis. What is more, the intercity driver does not deal with the customer. However, the driver for a truckload, non-radial, irregular-route carrier may never report to a carrier terminal. The load is picked up by the driver from the shipper's dock and transported directly to the consignee's dock. The driver must deal with customers at both ends of the trip, and management monitoring and control of the driver can only be accomplished by getting the driver to telephone the carrier at designated stages of the process: a matter that requires the cooperation of the driver. It is a simple matter to see the difficulties of using employees in this situation, and the immense benefits that derive from having the appropriate entrepreneural incentives placed upon the driver to provide a quality service, i.e. to use owner-operators.

A separate set of potential benefits to a motor carrier in using owner-operators rather than company equipment and drivers derives from the assertion that owner operators are "cheaper" than employee drivers. It should be noted that this rationale is distinct from the increased productivity argument made above. There we suggested, in effect, that more "output" could be obtained from an equivalennt set of "inputs." Here we shall explore the possibility that the "inputs," (in particular, driver wages) come cheaper by using owner-operators than by using employee drivers. As we shall see, the sources of this cheaper labor are numerous.

First, we note that, as identified by Wyckoff and Maister,[25] many owner-operators seem prepared to accept an effectively lower wage than they could obtain by selling off their trucks, investing their capital in Treasury Bonds and going to work as a Teamster employee driver. Wyckoff and I termed this the "price of independence" that the owner-operator seems prepared to pay. The fact that they are prepared to pay this price does not necessarily account for the fact that in many instances the owner-operators do pay this price. For the explanation of this, we must note that since in many companies the owner-operators are classified as "independent contractors" rather than "employees," they are prohibited under anti-trust laws from bargaining collectively. The source of the "cheaper labor" thus derives in part from the lessened ability of the owner-operator to obtain wage levels comparable to those obtained by the bargaining efforts of the Teamsters' Union on behalf of employee company drivers.

The non-union status of many owner-operators implies other labor cost savings for the carrier apart from the direct wage labor cost. The carrier using non-union owner-operators can avoid a variety of "fringe" payments such as union pension contributions, paid vacations and other indirect labor expenses that are borne by the employee driver carrier.

Apart from union-negotiated fringes, a carrier that uses "independent contractor" owner-operators rather than employee drivers also has the opportunity to save on other, government-mandated, fringe labor costs. Among these may be included payroll taxes, social security payments and, in some states, workers compensation payments. As in the case of union-negotiated fringes, these expenses have escalated rapidly in recent years and have the potential to represent substantial savings to the carrier if they can be avoided. In recent years, "fringe" labor costs have averaged approximately 34% of the basic wage bill in the trucking industry.[26]

It can be seen that the potential motivations for using owner-operators vary widely. This is not without significance that is often overlooked by managers and public policy makers alike. For managers, the implication of varying motivations for using owner-operators is that the exact goal to be achieved in using owner-operators can (and, I would argue, should) influence the way they manage and deal with their owner operators. For example, if a carrier is using owner-operators to capture increased productivity and/or lower input (labor) costs, (rather than attempting to grow rapidly or avoid capital risk) then it may need to avoid placing too much of capital risk on the owner-operator's shoulders in order to preserve the benefits it seeks. To state it more simply: a carrier that is looking for productivity benefits can less afford high owner-operator turnover and dissatisfaction than one that seeks solely to use them to match supply and demand, and its management practices must reflect this. In the course of my research I have been led to the conclusion that this simple insight is often missed by many motor carrier executives, who have failed to identify their exact motivations for using owner-operators and who have consequently failed to think through how they can best capture the specific benefits they seek.

For public policy makers, the varying potential motivations for using owner-operators has significance for the various ways in which they seek to control and influence the owner operator system. To the extent that "cheap labor cost" is the prime motivation of carriers in using owner-operators, public policy officials may feel it necessary to enact regulations to prevent the exploitation of owner-operators by carriers, and to view the owner-operator system as an "aberration" that provides no real economies to the motor carrier system. If, however, increased productivity is the prime rationale, then the owner-operator system offers substantial and real benefits to the industry and should be encouraged (or at least, not inhibited) by governmest action. Implications for public policy also exist in understanding exactly which instruments of public policy are most likely to impact upon the owner-operator system. If the owner-operator system exists for most carriers because of cheap labor input costs, then actions by the ICC in "protecting" the owner-operator may have substantial impact. If avoidance of capital risk is the prime rationale, then slightly increase labor cost due to allowing owner-operators to bargain collectively will not threaten (though it may affect) the owner-operator system. If avoidance of government-mandated fringe costs play a large role in explaining the existence of the owner-operator system, then the greatest "threat" to the system is not the ICC's action on "truth in leasing" rules,[27] nor the National Labor Relations Board's rulings on whether owner-operators may bargain collectively,[28] but whether or not the International Revenue Service classifies owner-operators as employees.[29]

THE OWNER-OPERATOR SYSTEM IN OTHER INDUSTRIES

The reader will have noticed that none of the benefits ascribed above to the owner-operator system (avoidance of capital risk, matching supply and demand, absorbing uncertainty, providing entrepreneural incentive, capacity for rapid growth, cheaper labor cost, non-employee status) depend crucially for their existence upon factors peculiar to the trucking industry, (except perhaps the discussion of the supervision problems of non-radial irregular-route carriers'. We may therefore ask whether the owner-operator system exists in other industries. If it does, then our understanding of the system may be increased by consideration of how and why the system works in those industries

There exists onen analogous experience that we can examine, which, as we shall see, yields a plentiful harvest of valuable insights. This is the experience of the (particularly fast food) franchising industry. Consider, for example, the following quotation:

> The following is a more elaborate list of the various advantages for both franchisor and franchisee . . . Advantages to franchisor: (1) Investment capital . . . (2) Local, interested management, with cost and sales awareness, (3) Acceptance in the community as a local business, (4) Limited payroll and insurance costs, (5) Better market communications — Local franchise to manufacturer or supplier, (6) Individual ownership giving strong motivation to success, (7) Thorough, fast and selective distribution, (8) Reduced operating expenses.[30]

With only slight vocabulary changes, we can recognize in this list all of the advantages of the owner-operator system that we have described above.

In fact, the analogy between the owner-operator system and franchising has been noted before. In a book designed to assist those considering becoming a franchisee, Metz[31] devotes each of his chapters to the typical franchisee experience in a variety of industries — including that of an individual working for a Household Goods trucking company! However, the analogy (and the implications it offers) has been scarcely recognized (if at all) in the trucking community, or among those in the public sector who have responsibility for (or have influence over) the trucking industry.

Our analogy with franchising allows us to shed some light on these questions. First, we consider the potential benefits of the owner-operator system to the owner-operator. Consider the following list of advantages to the potential franchisee (compared to opening up in business for himself) compiled by an authority on franchising:

1. Risk minimized because of help from franchisor
2. Can open business with less cash
3. Can enter inexperienced, because franchisor provides training
4. Potentially more profitable because of the ability to share in bulk purchasing
5. Benefit from national advertising
6. Obtain merchandising assistance
7. Share in collateral benefits such as insurance
8. Product improvements (R and D) made by parent
9. Continuing managerial assistance
10. Sympathetic personal attention[32]

With some degree of redundancy, we can quote from another list of advantages of franchising found in the **Small Business Reporter:**

1. No previous experience required
2. Less capital required
3. Financial assistance from franchisor
4. Benefits of a consumer-accepted image
5. Maintained quality
6. Buying power
7. Training and continued assistance
8. Location analysis
9. Managerial and records assistance
10. Sales, advertising and marketing assistance
11. National publicity
12. Higher income potential
13. Lower risk of failure[33]

Once more, it is not difficult to interpret these to apply to the situation of an owner-operator who, in a free market, might be considering the choice of whether to sign a lease contract with a motor carrier or operate as a one-man business. Nevertheless, let us emphasize and interpret one or two of these advantages. The "benefits of a consumer-accepted image" to the owner-operator are clear. He is likely to have much greater success in obtaining traffic in any market where there is the slightest "service quality" sensitivity by associating himself with a large carrier than by approaching shippers as a one-man operation. The "lower risk of failure" argument is particularly interesting. Although not unchallenged,[34] there is considerable evidence that franchisees have a markedly lower rate of business failure than the overall small business failure rate.[35] It would not be difficult to accept this same prediction for the trucking industry if an owner-operator competing in an unregulated market had the choice of working for a large carrier or acting as a one-man business.

The advantages of "location analysis" points out one of the responsibilities of the motor carrier/franchisor to his owner-operators/franchisee: the need to provide guidance on what are good markets. In the case of fast-food franchising this will indeed be literally "location analysis." In the case of the motor carrier, this would translate into the need for the carrier to assemble and provide to the owner-operator a profitable set of routes and commodities.

This last point serves to remind the reader that the discussion above is not meant to be interpreted as describing the services and benefits that motor carriers **do** provide to owner-operators, but rather to illustrate the services and benefits that it **could** offer to the owner-operator. Indeed, I would argue that these services **should** be offered to the owner-operator by carrier management. Many carriers that I have interviewed expressed great concern about their problems in attracting and, particularly, retaining sufficient numbers of owner-operators. It is not unusual for a carrier to experience a turnover of 50% or more in its owner-operator fleet. In large part, I believe that this is due to the fact that many carriers have failed to consider the benefits of the owner-operator system **to the owner operators**, and hence manage their relationships poorly. I shall return to this point below.

One more aspect of the owner-operator-franchisee analogy is worthy of investigation: the problems of owner-operator "abuse" described above. It is of more than passing interest to note that the franchising industry has had a history of repeated accusations of abuse by franchisors or their franchisees. What is more, the forms of these abuses are remarkably similar to those raised in connection with owner operators in the motor carrier industry. In 1970, one author noted that "recently a number of class actions have been brought by franchisees against their franchisors ... Most actions to date have revolved around the franchisor's 'excessive' methods of control, 'oppressive' contracts, and 'restrictive' buying covenants."[36] Another author, (who had previously published a book entitled **Franchising: Trap for the Trusting**[37]) identified in 1973 over 60 prominent franchisors who were then or recently had been involved in franchise litigation.[38]

Like the owner-operator system, concern has been expressed in studies of franchising that the balannce of bargaining power is weighed unequally in favor of the franchisor; that deception is used in selling franchises (particularly the use of hidden charges[39]); that misrepresentations of earning potentials are made[40]; that franchisees are exploited in their purchases of equipment and supplies[41]; and virtually all of the other "abuses" that are said to exist in the owner-operator system of trucking. The reader that wishes to prove this for himself or herself has only to read and compare the testimony presented in the Senate hearings on franchise agreements[42] with the Congressional hearings on the owner-operator system (referenced above). The similarity of these problems in the two industries suggest that the problems faced by the franchisee/owner-operator derive more from the nature of the relationship between a small businessman and a sizeable corporation than from any industry-specific (or regulation-specific) circumstances. Indeed, further evidence of this may be provided by considering the stormy history of relationships between automobile manufacturers and their dealers,[43] and in any channel of distribution where one organization dominates the rest of the channel.[44]

SUMMARY

Evidence from the other industries cited in this paper, and from my observation of successful owner-operator management in the U.S. trucking industry, suggest the following conclusions. First, there is definitely a role for government bodies to play in protecting the small businessman in his associations with a much larger associate. The ICC's actions in promoting truth-in-leasing rules follows closely the pattern of truth-in-franchising laws and the automobile "Dealer Day in Court" statute,[45] and is much to be commended.

However, such laws and regulations

can only go so far. A point is soon reached when government action can proceed no further and amiable relations between franchisor and franchisee, manufacturer and dealer, carrier and owner-operator becomes a simple matter of good management. I believe the trucking industry in general (with some notable exceptions) has a great deal to learn about sound owner-operator management. Given the inflation of recent years and the consequent shifts in the economics of the owner-operator, few carriers will be able to rely, as many have done in the past, on numerous new entrants to save them from poor owner-operator management. The historically high turnover rates will be unsupportable for the following reasons. First, changing economics, increased education and greater awareness (through recent publicity) of the problems of being an owner-operator will reduce (as it probably has done already) the supply of new entrants to the industry. Second, the demand for owner-operators will continue to increase, as it has done in recent years (from 20 to 25 percent of all regulated intercity miles) as more carriers discover the benefits of the owner-operator method of operation. It is of more than passing interest to note the widespread use (reported above) of owner-operators in the general freight and LTL sectors of many foreign jurisdictions. Although some of the rationales for using owner-operators may not apply in these sectors, many of them do. It is probable that the greatest barrier in the U.S. to the use of owner-operators in the general freight-regular-route-common-carrier sector is the opposition and power of the Teamsters' Union, rather than the absence of an economic rationale.

My researches suggest that the increased competition for a more limited supply of owner-operators will, even in the absence of a regulatory change which might give owner-operators more options, continue to force motor carriers to design owner-operators management systems that most truly reflect the underlying economic advantages of the system.

The solutions to their problems will differ from carrier to carrier, and sector to sector, at least, as noted above, because of the different benefits that individual carriers may seek among all the rationales for using owner-operators. If, as I believe, many carriers use owner-operators primarily for the productivity and labor cost benefits described above, then it should not attempt to capture the capital risk benefits as well. Indeed, it would probably be wise for them to offset some of the capital problems faced by their owner-operators in order to continue receiving the benefits they seek.

Similarly, if carriers wish to receive the benefits of the owner-operator system, they must consider the benefits that the system should offer to the owner-operator. They must explicitly consider their side of the "franchise bargain" and consider what they can and should provide to the owner-operator that he cannot achieve as a complete independent. Among the various factors described above, I believe that business training and the provision of traffic-balanced markets are primary. Further guidance to "good" owner-operator management can, I believe, be obtained by consideration of the management techniques used by the successful fast-food (and other) franchising organizations.

However, it has not been the purpose of this paper to describe good owner-operator management. Rather, I have tried to explain the prevalence of the owner-operator system in the trucking industry. The major conclusion of this paper was aptly captured by Hunt when he observed:

> Simply put, the franchise ethic says that franchised units combine the best of both worlds, the sophisticated business procedures of the large company and the drive and initiative of the independent owner-manager.[46]

Rephrasing these thoughts, we can easily apply them to explain the prevalence of the owner-operator system in the trucking industry. In essence, the economic basis of the system is that the motor carrier performs those tasks (marketing, selling, dispatching, billing, collecting, and so on) for which "economies of scale" exist, i.e. that can most efficiently be done by a larger company. Those tasks for which few, if any such economies of scale exist, such as the line-haul transportation, are left in the hands of those individuals best able to perform the service: the entrepreneural owner-operator. While institutional factors, laws, regulations and specific industry conditions may cause deviations from this ideal, and the imbalance of power between owner-operator and carrier may create legal and regulatory problems, the owner-operator system will continue as long as this underlying economic rationale exists.

FOOTNOTES

1 Interstate Commerce Commission, Lease and Interchange of Vehicles, Ex Parte No. MC-43 (Sub-No. 7), 131MCC 141; also The Independent Trucker, Bureau of Economics, ICC, Washington, May 1978.

2 Charles River Associates, Impacts of Proposals for Reform of Economic Regulation on Small Motor Carriers and Small Shippers, Contract No.

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