Deregulation: the road to

Last week, President Jimmy Carter met with Senator Edward "Ted" Kennedy to discuss joint action on the deregulation of the American trucking industry. Next week, Kennedy is expected to introduce legislation that would fully deregulate trucking within the space of a few years' time, the Carter administration backing the bill.

The Kennedy-Carter bill is the outcome of a campaign for deregulation led by the "liberal" Brookings Institution, the "conservative" American Enterprise Institute, Hapsburg economist Milton Friedman, and the British intelligence Heritage Foundation among others. Some or all of these persons and organizations have taken a hand in drafting the proposals and the legislation, and admittedly, have employed the British trucking system as a model.

As one would expect of any application of British methods—look at Britain—trucking deregulation would be an unmitigated economic disaster for the USA, which is precisely what nine former Interstate Commerce Commissioners called it in a June 14 press release: "a prescription for national disaster ... hacking our transportation system into thousands of disjointed members ... a fragmented national transportation system that would lead toward the Balkanization of America."

The commissioners do not exaggerate. Below, we will detail what British System deregulation will cost the American economy—both the trucking industry worker and the consumer—through

1) costly inefficiency—$7.2 billion;

2) reduction of service to rural communities—$4.4 billion;

3) higher insurance costs due to higher accident rates—$3.5 billion;

4) cuts in wage scales of unionized Teamsters—$5.1 billion.

These costs of deregulation will run to more than $20 billion per year, or about $100 billion over the next five years. These are charges against the economy's ability to grow, large enough to cause economic disaster

In this section

This week's ECONOMIC SURVEY continues *EIR*'s precedent-setting reporting based on data prepared using Lyndon H. LaRouche's computerized Riemannian economic model. Prepared by a team including two authors of the bestselling exposé *Dope, Inc.*—Costas Kalimtgis and *EIR* economics editor David Goldman—labor editor L. Wolfe, Richard Freeman and Linda Frommer, our report on the devastating impact that deregulation of the trucking industry would have on the U.S. economy will appear in a substantially expanded version as a U.S. Labor Party brief, *Deregulation: a disaster worse than Vietnam.*

Back to the mob

There are two *primary* effects deregulation will provoke. One is gigantic, but calculable: the reduction of the overall productivity of the American economy. The other is perhaps even more gigantic, and beyond the range of calculation: the growth of the illegal narcotics traffic.

What it boils down to is handing the trucking industry back to organized crime, where it was in the 1930s, before the ICC and the Teamsters gave it back to the public. In the middle stand the "independent" truckers.

The independents cannot make a living without

transport chaos

consuming and hauling drugs. How much of their living, exactly, does this account for? No one knows precisely, but we can make a pretty sound guess. The volume of illegal goods traded in the United States is estimated at well over $250 billion a year. That includes $100 billion of illegal narcotics. Assume that the independents haul $100 billion worth of such illegal goods per year (actually, they haul virtually all of it). Then assume that the trucker takes 2 percent of the value of such goods. Since the best regulated carriers take about 1 percent of the value of the legal freight they deliver, 2 percent is close to the going rate for hot goods. That means that the independents take about $2 billion per year in payoffs for handling illegal goods. Estimates of the independents' legitimate income range from $4 billion to $6 billion.

The precision of any of these estimates is not important; it is indisputable that the owner-operators, by their own testimony and by the numbers, are locked into an outlaw existence. Handing the pick of the routes to this element represents a takeover of the legitimate economy by the illegal economy, including the drug traffic.

How much does Senator Kennedy know about this? The gentleman from Massachusetts took dope money during his last Senate campaign, in the form of a contribution from Joseph Linsey, Meyer Lansky's chief business partner in the New England area. Among the other things Kennedy wants to deregulate is the marijuana traffic; he is one of the Senate's most vociferous advocate of marijuana deregulation.

There is a sinister continuity in the Kennedy family's attitude toward the trucking industry and the International Brotherhood of Teamsters. The entire "Get-Hoffa" squad, from hitman Walter Sheridan on down, of the old Kennedy Justice Department now works for the two best-identified "legit" outlets for organized crime and narcotics trafficking in the United States. These are the convicted racketeers of Emprise (renamed Sports-Systems) and Resorts International and its subsidiary, International Intelligence. The Kennedy family's roots in the underworld go back three generations, and most prominently to old Joe Kennedy's bootlegging partnership in the infamous Renfield Syndicate of the 1920s. What does the Kennedy family *not* know about hot freight? Organized crime got taketh away from, and organized crime wants it all back.

What is the economic damage of the destruction of the minds of half the youngsters—the proportion of American youth who use illegal drugs—in this country? How much does half a generation earn during its productive lifetime? Turning the transportation industry over to Dope, Inc., is a big step in a hellish path that will cost the United States tens of millions of lives and tens of trillions of dollars. The numbers are shattering, beyond comprehension.

However, there are costs we can calculate, which are horrifying enough in their own right.

Transport and productivity

There are two things wrong with the argument for deregulation.

The first is that the would-be deregulators lie about *what* the industry is. Secondly, they lie about *who* the industry is. Every one of them treats the complex, technologically advanced distribution system as if it were mere road haulage. This is nonsense. Next, they assume that since the industry is mere road haulage, one competitive unit is the same thing as another. In fact, there are 17,000 regulated carriers who have worked their way into the last quarter of the 20th century, and about 100,000 owner-operators who haven't, and couldn't possibly. In what high-technology, capital-intensive industry can a businessman get a start with $25,000 in capital, less than the cost of the most modest family home?

Having lied, the deregulators feel confident in saying "that in a free market the quality of service would depend on customer needs and desires, that it would certainly not necessarily be worse than it is now and would probably be better in remote areas, and that regulation has fostered both monopoly and costly inefficiency." The speaker is Dr. Thomas Gale Moore, high priest of Adam Smith at the Herbert Hoover Institute at Stanford University, the thinktanker whom the deregulators quote most often. Apart from his prestige position at the Hoover Institute, Dr. Moore is the leading theoretician for the so-called Libertarian Party, a kook group led by one Roger McBride. The Libertarian Party wants to deregulate trucking, deregulate the rest of the economy, eliminate income taxes, legalize prostitution, sodomy, pederasty, and the dope traffic.

Moore is especially shameless about his ideological warp: he explicitly praises Britain's ten-year-old system of trucking deregulation as a model for the U.S. That recommendation takes a considerable amount of courage in view of the state of the British economy, the industrial world's basket case of obsolescence. Even so, the best he has to say about British trucking is that "The effect of the 1968 Transport Act on the British trucking industry has not been great. Profits have apparently remained stable ... prices have tended to decline, and service quality has been little affected."

Dr. Moore, so to speak, slit his throat with his own pencil by making such a statement. It *is* true that overall British trucking rates fell ever-so-slightly after deregulation, relative, of course, to other prices. (During the same period, American freight rates—relative to other prices—fell by a staggering 38 percent in the Middle Atlantic rate conference).

Deregulation leads to lower freight costs, Moore asserts—or does it? Another more discerning expert on the trucking industry points out that in the case of Britain, overall rates may have fallen, but for a simple reason: the British trucking industry has pathetically low levels of capital investment. To be precise: full truckload rates fell by 10 percent, while less-than-truckload rates—for the kind of shipment that requires distribution terminals—rose by a staggering 40 percent!

The only reason that overall rates for motor transport fell in Britain is that the British carriers are too backward to handle less than a full truckload under most circumstances. That is an impressive indictment of the British trucking industry, and the British economy in general. A truckload is usually defined as five tons of goods, although modern rigs can carry up to four times that amount. In the United States, most freight travels in less-than-truckload volume—which means a merchant can order a shipment weighing a few hundred pounds and get 24-hour delivery. In Britain, the same merchant or other shipper will wait for days until a full truckload to his area is filled. The difference is that in Britain, motor carriers make practically no investment in efficient terminal facilities. In the United States, half of carriers' expenses pay for terminal facilities.

In a 1976 critique of deregulation, the Interstate Commerce Commission's Bureau of Economics calcu-

Dereg will 'Balkanize' U.S.—former ICC members

Nine former members of the Interstate Commerce Commission issued a state-ment June 14 warning that plans to deregulate the U.S. trucking and transportation industry would lead toward the "Balkanization" of America. The nine were Owen Clarke, Robert J. Corber, Abe McGregor Goff, Dale W. Hardin, Alfred T. MacFarland, Donald P. McPherson, Robert W. Minor, Rupert L. Murphy, and Charles A. Webb. Excerpts from the statement follow.

We are former members of the Interstate Commerce Commission whose combined service in that agency totals 71 years and five months. Our service spans the period beginning July 10, 1953 and ending August 31, 1978.

This statement is published in the hope that it may clarify a few basic issues in the current debate on regulatory reform for surface transportation. Our statement implies no criticism of incumbent Commissioners. Sharp differences of opinion exist within the transportation community on the extent to which surface transportation should be regulated. Such differences exist among ourselves....

The conflicting claims of individual carrier action and creation of a system of transportation were first resolved by Congress some 92 years ago. The Congress rejected rampant individualism, on the one hand, and, on the other, state socialism and nationalization of transportation. Charting a safe course between license and regimentation is not a problem peculiar to transportation but the consequences of navigational error are devastating.

There is an essential difference between an industrial cartel and a carrier rate bureau. Members of an industrial cartel have no obligation to create and to operate, for example, a national steel system, a coordinated electronics system, or an integrated system of supermarkets. On the contrary, our economic Magna Charta, the Sherman Act, prohibits any such form of cooperation because it is unnecessary and would deprive the public of the benefits of relatively unrestrained price competition. On the other hand, the concept of a national surface transportation system comprised of privately lated what would happen to American trucking rates if the United States took the British route. The ICC applied a 10 percent rate decrease to the $13.6 billion in currently regulated truckload deliveries; it then applied a 40 percent rate hike to the $21.4 billion worth of less-than-truckload (LTL) shipments. The result is a net *increase* of $7.2 billion, or more than 20 percent!

In Britain, average delivery time is roughly 96 hours; in regulated (and technologically advanced West Germany), over comparable distances, delivery time is roughly 24 hours, or one-quarter as much. Delivery time in the regulated American industry, adjusted for much greater distances, are in the same range as the far-superior West German performance.

Britain is, of course, a special case, and it is not sufficient to say that deregulation in the United States will have the identical effect; in Britain, so many things have gone wrong that it is misguided to attribute any feature of economic breakdown to a single cause. However, all the evidence from the United States shows that deregulation means the elimination of advanced terminal facilities capable of efficiently handling LTL shipments.

This is not merely what the American Trucking Association says will happen. That is what has happened. Two states, New Jersey and Delaware, have been deregulated for intrastate haulage long enough to bear examination. In both states, not one trucking company will accept less-than-truckload shipments in intrastate commerce. Deregulation has prevented the carriers from making the required investments in terminal facilities.

Again, the question is, who is being deregulated? Deregulaton means giving 100,000 semi-outlaws unrestricted access to every transport route in the country. That is why the American Trucking Association is so terrified of the deregulation plan. It is not a matter of whether individual companies stand to gain or lose; possibly, some of the larger carriers might gain at the expense of less efficient rivals. However, the industry as a whole—and its service to the public—would suffer. What industry spokesmen emphasize most often when they speak of deregulaton is the danger of pure chaos. After five years of high fuel prices and borderline existence, the independent truckers would leap into now-restricted markets like a pack of baboons inviting themselves to a church picnic. Under present conditions, the owner-operator must do business on terms set by the regulated carrier—at least during the daytime. To a great extent, he hires out to major carriers, in return for a percentage of the revenue on a specific haul. Deregulation would turn the tables. The independents would flood the most lucrative routes with lower bids.

In 1976, the American Trucking Association asked carriers what they thought would happen under deregulation. Asked whether a temporary rate war would break out, the carriers responded as follows:

Very likely	79.2 percent
Possible	17.8 percent
Unlikely	3.0 percent

Asked whether there would be eventual increases in shipping costs to consumers, the response was:

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owned carriers of different modes necessarily requires the system to be guided by collective action subject, of course, to whatever degree of regulation may be necessary to protect the public interest.

No developed nation has ever denied itself a national system of transportation. The systems are either owned and operated by the government or created and managed by the cooperative action of privately owned carriers under governmental regulation....

Our concern is not that total deregulation would revive "the law of the jungle," or "cutthroat competition," or return the common carrier industry to its condition in the Great Depression. In passing on the extent of deregulation, our concern is that the public may not fully understand the necessity for retaining a national system of transportation. No such system could exist in the total absence of regulation because the antitrust laws would condemn the collective activities required to make it operable.

Savings inflated

The savings generally attributed to total deregulation are inflated if it is assumed that users of transportation will be protected to the same extent as consumers of goods and other services. If the industry were made fully subject to the antitrust laws and fair trade legislation, litigation in the courts and before the Federal Trade Commission could be costly, time consuming, and confusing, again assuming that the full range of consumer protection is to be accorded to transportation users.

Although we doubt that total deregulation would return the surface transportation industry to its condition in the 1930s, it should not be forgotten that the condition was appalling. A rail transportation system existed but it was debilitated and much of it in bankruptcy. No motor common carrier system existed in any meaningful sense.

Although we differ among ourselves on the optimum degree of economic regulation for surface transportation, we are unanimous in believing that a national transportation system must be preserved and that the Congress should address this issue as soon as possible. Neither the Commission nor the courts can revitalize the nation's surface transportation policy without Congressional guidance....

For almost a century, surface transportation has functioned as a

Very likely 75.1 percent
Possible 20.3 percent
Unlikely 4.6 percent

D. Daryl Wyckoff of Harvard University painstakingly gathered data on the independent truckers through thousands of questionaires; his published results provide the most accurate available profile of the independent truckers' operations.

According to Wyckoff, the independent trucker normally pays slightly over 5 percent of his total expenses to a broker who arranges a shipment of unregulated goods, such as agricultural produce. If the independent, who does not have authority to carry regulated goods, chooses to work on a rural route carrying exempt goods, his fee to the broker is quite low. However, if the independent contracts with a major carrier to carry regulated goods, he typically pays 25 percent and more of this total expenses in return for authorization to haul on a regulated route.

Why would the independent shell out one-quarter of his total expenses to work an ICC-regulated route, when finding exempt goods only costs 5 percent? The reason is that the major intercity routes are far more profitable than rural routes. This is the reason for the ICC's system of route authorization: to operate on the more profitable routes, a carrier must also agree to operate on the less profitable routes. Otherwise, the less profitable routes would get little or no service.

Although the big motor carriers do not report how much of their profits come from different types of routes—often, the same haul includes both intercity and less traveled areas—we can obtain a pretty good approximation of what the difference is. Wyckoff estimates that the independent will pay from 25 to 40 percent of his total expenditures to obtain temporary use of a route certificate, instead of a 5 percent fee for a broker who finds exempt commodities for shipment. This implies that hauls on the major intercity arteries are 20 to 35 percent more profitable.

That range is a good enough estimate for our purposes. What stands out is that the industry's total profit margin was only 16.4 percent in 1977. In other words, the industry's overall profit margin was *less* than its profit margin on the major intercity routes. (If the profit margin on these routes was not in the range of 25 to 40 percent, no independent trucker would go near them, for obvious reasons). Judging from these numbers, the regulated carriers often absorb a *loss* in hauls to rural routes in order to obtain the privilege of operating on the most profitable routes.

Now it is clear what deregulation would set loose. First of all, the independents would no longer have to pay for route authorization on the most profitable hauls. Since they are now paying over 25 percent when they contract out to regulated carriers, they could cut rates on such routes substantially—although only on full truckload deliveries. The regulated carriers would have no choice but to cut rates in tandem, eliminating the profit margin on the profit-making portion of their business.

The big question is, what will the destruction of the American system of regulated road transport—high wages combined with high capital investment—do to

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national system. In the beginning, it was sufficient to outlaw discrimination, to require just and reasonable rates, and to permit the railroads to satisfy those commands by collective action. When it became necessary to create a more highly integrated system, the Congress responded with the Transportation Act of 1920 to curb unnecessary expansion and to encourage rationalization of plant. When, for constitutional and for other reasons, the States proved unable to foster a national motor carrier system, the Congress enacted the Motor Carrier Act of 1935. Water carriers were recognized to be part of the national system by the Transportation Act of 1940, which also provided a charter for the fair and impartial regulation of the rail, motor and water modes.

A multi-modal system

That charter, called the National Transportation Policy, has served as the touchstone of regulation for 39 years. At the heart of the policy is the conviction that surface transportation should be regulated as a multimodal system, not as a horde of disconnected carrier enterprises. The 1940 Congressional declaration of the National Transportation Policy has as its sole objective: "To ensure the development, coordination, and preservation of a transportation system that meets the transportation needs of the United States...."

... The essential difference between common carriers and businesses not subject to economic regulation is that carriers must work within a system which serves all other businesses, regions, localities, ports and the traveling public, without discrimination and at reasonable rates. No transportation concept has won greater support than intermodalism; the idea that not only carriers but also modes of transportation should work together in forming a national system so that any commodity can be shipped from any point to any place by any means with a minimum of trouble and expense. For transportation the concept is sound, as shown by the remarkable growth of piggyback and other intermodal movements....

Balkanization of America

If carriers, subject to the supervision of the Commission, are denied the opportunity to consult, confer, and take collective action, the carriers will not be the principal losers. The

the nation's economy? Within months, the system of distribution terminals would begin to decay. Within a few years, the industry would be thrown back to the obsolescent condition of its British counterpart; the terminal system would cease to exist. Delivery time would increase several times over. A good rough measure of the rise in delivery times can be derived from the British example. After deregulation hit Britain, delivery time rose from about two and one-half days to four days for an average shipment. However, Britain's starting point was far inferior to the present-day American system of transport. The longest haul in the British Isles, London to Glasgow, is no farther than Los Angeles to San Francisco. "And if you can't make LA to Frisco an overnight run," stated a spokesman for a leading California carrier, "you're out of business." A much better comparison is West Germany's typical twenty-four hour delivery time and Britain's ninety-six hour delivery time. As American terminal facilities fold up for lack of maintenance, the delivery time of most goods will rise by a factor of four.

For an economy as advanced as that of the United States, a rise in delivery time from West German levels to British levels means a collapse of productivity. However it is measured—usually as output per man-hour—*productivity is a function of time*. The time it takes raw materials to become fabricated materials, or fabricated materials to move through an assembly line, or parts to move from one plant to another, or finished product to move to the wholesaler, or wholesale goods to move to the retailer, is the measure of the nation's productivity. There is not a single product of the U.S. economy that does not depend on motor carrier deliveries.

We can measure the increase in the time it takes a single commodity to move through the economic cycle of production and distribution, and see precisely what effect deregulation—the quadrupling of delivery time for road transport—will have on productivity. Then, using the LaRouche economic model, we can determine what effect the deregulation-caused decline in productivity will have on the nation's economy over the next several years.

Average delivery time by motor carrier in the United States is now approximately one and one-half days. Measured against the time that a commodity now spends in a manufacturer's inventory, a pretty good measure of the length of the production cycle, delivery time is an insignificant factor. Typical inventory time is now roughly 39 days, measured by the inventory-to-sales ratio. Delivery time adds only one-twentieth under the regulated system.

However, if delivery time increased by a factor of four, as we project under deregulation, delivery time would count for almost one-sixth of the length of the production cycle. That constitutes a staggering reduction of the nation's productivity. In the terms of the LaRouche economic model, each year, each section of the economy

yield one-sixth less surplus tangible product, that is, tangible output in excess of basic maintenance requirements. Each year, that much less output would be available for new investment, export, or improvement of living standards.

Is the projection of a fourfold increase in delivery time

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losers will be shippers who no longer have a voice in the ratemaking process; ports denied rate equalization; and producers of countless commodities who can no longer compete on the basis of price because of their inability to overcome local disadvantages. A fragmented national transportation network would lead toward the Balkanization of America. The barriers to commerce imposed by State boundaries, which the Founding Fathers leveled by the Commerce Clause of the Constitution, would reappear in the form of barriers raised against the free flow of goods from mode to mode and from carrier to carrier.

We recognize respectable arguments can be made both for tightening or for relaxing economic regulation of surface transportation. Total deregulation, however, poses the question whether the nation would be better served by a national system of surface transportation or by no system at all. A decision on a question of such import will not be durable unless it is made by Congress.

Nothing more clearly reveals loss of faith in a national transportation system than the proposal in the Railroad Deregulation Act of 1979 (S. 796) for a Railroad Transportation Policy as an exception to the present National Transportation Policy. If such an exception is sound, separate policy statements for the bus, trucking, water carrier, and freight forwarder industries followed by interment of the multi-modal National Transportation Policy would appear to be a logical extension. Secondly, the bill would split the rail system into its component parts by repealing the requirement for joint rates and by emasculating the conference method of rate-making. Hacking our national transportation system into thousands of disjointed members is a prescription for disaster. Once the system is dismantled, its rebuilding would be as difficult as construction of the Tower of Babel, and for the same reason.

In transportation, as in communication, the system is the solution.

an exaggeration? Probably, it is an understatement. In the United States, the average over-the-road haul is about 600 miles. In Britain, the average haul is 68 miles, or slightly over one-tenth as long. To maintain the world's speed record for delivery, the American trucking industry uses the most skilled labor and the most advanced facilities in the world. For this reason, America is one of the only places in the world where speed and reliability of delivery may be taken for granted by the farmer, the consumer, the manufacturer, and the retailer. The transport network is like a machine, each part of which is kept in top working order. Remove the current levels of investment in the terminal system, and reduce investment to below breakeven level, and the machine will fall apart.

For purposes of calculation, however, we will make every possible concession to our adversary's argument, erring, if at all, on our adversary's side. Our computer simulation of the effects on the economy of deregulation is programmed to calculate only an increase of 1.5 days to 3 days on American trucking's average 600-mile haul. The results are those we have described above.

Reduction of service to rural communities

One-fifth of American economic life is conducted outside the major metropolitan centers, according to the U.S. Department of Commerce. Because the economic statistics of many metropolitan areas are inflated by suburban sprawl, the agricultural, mining and manufacturing importance of non-urban areas is disproportionately greater than the Commerce statistics show. When we speak of rural America, we have in mind the world's most productive agriculture, a high proportion of all manufacturing facilities, and sufficient mining capacity to meet most of the raw materials requirements of American industry. No other country in the world has succeeded so spectacularly in bringing outlying areas into the mainstream of economic life—and certainly no other country of America's great size.

For the citizens of this country who live and work in rural areas, transportation has not been a matter of concern—not, in any case, until the threat of deregulation came along. Two-thirds of America's communities are served exclusively by truck transport, and America's truck transport is the best in the world. The inventory of goods available to a consumer or parts or materials available to a manufacturer in these communities is on a par with the selection available in urban centers, because of quick and cheap truck transport. Even communities served by rail depend on trucks for most consumer and manufactured goods. Railroads do not usually accept shipments of less than 10,000 pounds—about what is usually called a "truckload" in the motor carrier industry. Most of these communities' needs are served with less-than-truckload shipments.

Because of the success of regulation—both the formal kind of the ICC and the less formal kind of the International Brotherhood of Teamsters—most Americans do not have to think of what they have to lose in efficient transport. If they visited other countries, such as Britain, Americans would be shocked by the contrast. There are no waiting lines in front of stores in the United States; no layoffs and short-time work because of parts that have not arrived; no shortages of retail items because of transport bottlenecks; no sudden variations in price depending on the whim of independent truckers. That is what the citizens of most countries, who depend on gypsy bands of independent truckers, put up with. Each shipment must be negotiated at wildly fluctuating prices; transport may be prohibitively expensive, or simply not available. In fact, transport is one of the single greatest barriers on the development of the rural economies of the world.

Motor transport created the map of the United States. Henry Ford did not manufacture cars—he manufactured cities. The Model T, strong enough to pull a plough and tough enough to take dirt roads, transformed collections of farming hamlets into new metropolises. Mere agricultural service centers became manufacturing centers. Instead of the backward, ignorant peasantry that has been the great drag on all other nations, America developed an educated, prosperous, forward-looking farming population, just as at home with machines as with livestock. This was not an accident, but the deliberate, aggressively fought-for policy of men like Henry Ford. And at each turning point in America's grand scheme of development, transport linking each section of the country together like the veins and arteries of a human body was the means of development itself.

What sort of damage the wanton amputation of the extremities of the body of the American Republic will cause, can barely be guessed at. It isn't simply a question of losing such-and-such an amount of overall industrial efficiency. Hitting at the economic life of rural America damages America's century-long chosen path of development: the transformation of outposts of advanced farmers into industrial cities. Not merely the capacity to expand, but the capacity to expand in the best way, and to the best places, will be in great jeopardy. The inestimably great efficiencies of maintaining chains of industrial feeder plants dotted through agricultural areas—the layout of America's industrial heartland in the Midwest—would cease to exist. Many essential rural communities would have to return to the mode of economic life of a century ago, if indeed there were any position to fall back to.

We have already shown why rural America would face amputation if deregulation were to come into effect. All the organizations which represent this vital section of America are fighting deregulation as if they

Table 1. Projected effects of trucking deregulation on value of U.S. industrial output, 1979-1987 (in trillions of constant 1979 dollars).

Year	Industrial output, no deregulation	Industrial output, with deregulation	Lost output
1979	$1.860	$1.860	$0.000
1980	1.996	1.990	0.006
1981	2.212	2.110	0.102
1982	2.244	2.167	0.077
1983	2.541	2.237	0.304
1984	2.708	2.218	0.480
*1985	2.923	2.320	0.603
*1986	3.154	2.360	0.794
*1987	3.404	2.408	0.996

The costs of trucking deregulation in terms of lost U.S. industrial output were calculated by a computer using Lyndon H. LaRouche's Riemannian economic model. Indicative of the model's ability to locate "qualitative" as well as quantitative nodal points in economic processes, the values in lost output for the years after 1984 (marked with asterisks) become so large as to become quantitatively meaningless: at this point, deregulation will have degraded the U.S. industrial economy to a fundamentally lower level of operation, in which dollar comparisons with previous levels of economic activity are meaningless.

were fighting for their lives. The National League of Cities, for example, passed this resolution at its December, 1975 annual convention:

> WHEREAS, this nation has the greatest transportation system developed in the history of any nation and,
> WHEREAS, the system now serves most communities with adequate freight service, and
> WHEREAS, deregulation threatens freight service to many small communities across this nation,
> NOW THEREFORE BE IT RESOLVED, that the National League of Cities opposes the deregulation of common carriers since it poses a threat to continuance of services to small communities.

There is absolutely no question that regulation would cut off rural America. The hard facts prove it. In 1976, the American Trucking Association asked its members, "If regulated transportation were eliminated, to how many communities do you estimate you might stop service?" Of the respondents to this survey, 70.4 percent "would cut off some or all of the communities they now serve, and would reduce the average number of towns they serve from the present 84 to an estimated 58," the Association study found. And 82.4 percent of the respondents said that an "eventual decrease in transportation service, especially to small communities" was "very likely." According to 75.1 percent, "eventual increases in shipping costs to customers" were "very likely."

The distribution of answers to the question concerning elimination of service to small communities was as follows:

No Communities Eliminated	29.6%
Up to 10% Communities Eliminated	5.3
10-14% Eliminated	21.7
25-49% Eliminated	22.1
50-99% Eliminated	18.5
All Communities Eliminated	2.7

That was the view of the trucking industry three years ago. Without regulation, trucking companies would eliminate small communities merely because they cost more to service than large population concentrations.

It would be instructive to take the same survey again now, when truckers face a guerrilla war by 100,000 hungry independents. Under conditions of war for the lucrative routes, it is likely that the industry would cut off even more small communities than indicated above.

How would smaller communities function under such conditions? With regular service eliminated, customers would have to contract with independent truckers for special shipments at exorbitant rates. Less-than-truckload shipments would be out of the question, even though less-than-truckload shipments are now the most common form of delivery to small communities on regulated routes. The increase in costs would be enormous, in the range of the 40 percent increase that LTL shipments registered in Great Britain after deregulation, if not higher.

Assume that the non-metropolitan communities that account for one-fifth of American economic activity also account for one-fifth of the $35 billion regulated trucking industry. Their current bill would be $7 billion. If their costs rose by 40 percent, the increase would be *$2.8 billion*. Even at this price, service would be less frequent—since the carriers willing to take the business would not conduct less-than-truckload deliveries. Business would have to stockpile more inventories to make up for the infrequency of service. In 1976, the Interstate Commerce Commission estimated that this would cost an additional *$250 million* (adjusted for economic trends since 1976, the figure would be about *$400 million*).

The damage is not yet accounted for. According to the Interstate Commerce Commission, 45 percent of the business in small towns is retail trade. More than any other sector, retailing depends on frequency of service and on less-than-truckload shipments, At least a portion of the retail trade in small towns would not survive the elimination of regulated deliveries. Again, to bend over backwards in giving our adversaries the benefit of the doubt, we will only assume that 1 percent of the economic activity of non-metropolitan areas would be lost due to deregulation. One percent of $400 billion is $4 billion.

All in all, the cost to rural communities would exceed $7.2 billion. Part of this cost, the $2.8 billion cost due to higher freight charges, we have already counted in the $7.2 billion figure for the total rise in the nation's freight bill, based on an Interstate Commerce Commission projection of what the British model would mean for the United States.

Combining these two figures (without double counting), the immediate cost of deregulation so far is $11.6 billion per year.

The evidence is so unmistakable in the case of rural communities that the deregulators, backhandedly, concede that there may be some problems. One says that "if a subsidy were required to ensure rural service, direct government subsidy would probably be preferable to the haphazard system of rate regulation and restrictive entry." This is a strange proposal from a group of people who claim that their intention is to limit government waste and bureaucracy. The thought of the Department of Transportation attempting to work out schedules of subsidies for tens of thousands of different commodities shipped to the 38,799 American towns without rail service is horrifying from the standpoint of cost-effective administration. In effect, the deregulators cannot defend their position.

Reduction of Teamster wages

If outlaw conditions prevail in the trucking industry, union drivers will ultimately have to accept outlaw wages or lose work.

Hourly rates for independent truckers are now one-third to one-half less than the combined wages and benefits paid to union drivers under the Master Freight Contract and the Chicago Conference. Independents and IBT drivers make roughly the same amount per year. However, the independents drive an extra 25,000 to 75,000 miles per year to get it.

Depression economics means wage cuts. To be rigorous, it would have to be assumed that the Teamsters would take a cut down to the highest point of the independent truckers' scale, or a 25 percent outright reduction. To stay on the conservative side of such estimates, we will assume a 15 percent pay cut. Currently, the 350,000 Teamster drivers covered by the Master Freight Contract, the 100,000 drivers covered by the Chicago Conference, and 700,000 drivers covered by other agreements, earn about $34 billion in combined wages and benefits. A 15 percent pay cut would cost these drivers $5.1 billion. This figure does not include the impact on the other 2 million members of the Teamsters. We will leave those implications aside.

The total annual cost of deregulation is now up to $16.7 billion.

Senator Kennedy and other zero-growthers would argue that a pay cut represents a *savings* to the industry, while other economics would quibble about the effect of the pay cut on aggregate consumers' demand. But the importance of the trend-setting Teamster pay scale is immediately evident to every American trade unionist. The International Brotherhood of Teamsters has done more than any other union in setting standards for advancing living standards. Not only trade unionists have an interest in preventing the trade union movement from being thrown back forty years; the Teamster pay package is a foundation-stone of what is best in the American economy. Cut back the system of highly-paid, productive transportation industry employees and the efficiency of the entire system will collapse. But that drawback is not unique to Kennedy's plans for the Teamsters. It is the content of the entire package for the motor carrier industry.

If this prognosis for the health of the International Brotherhood of Teamsters under a regime of deregulation sounds extreme, consider what the nether side of the trucking industry—the beneficiary of deregulation—really looks like:

Safety and insurance costs

Seventy-five percent of all independent truckers, according to an Interstate Commerce Commission study, drive between 75,000 and 175,000 miles a year. This requires driving between 14 and 18 hours a day. According to another study, 44 percent of the independents regularly exceed the ICC's legal limit of 10 hours driving per day. Frequently, the independents exceed the legal speed limit. Just as frequently, they use drugs. According to data collected by Dr. D. Daryl Wyckoff, most independents use drugs at one time or another, and 40 percent use drugs "occasionally" or "regularly."

Let us examine what the roads would look like if all trucking safety standards fell back to the independents' lower level.

In 1977, the large regulated carriers drove 14,381 billion highway miles. At the current safe standard of the union driver, or 0.2 accidents per 100,000 miles, it may be estimated that the carriers suffered about 290,000 accidents. For the most part, the lower rate also applies to owner-operators when they lease to the common carriers. Many of these owner operators are themselves members of the union, and work to union safety standards when driving for a large firm.

If the lower safety standards prevalant among the jungle side of the trucking industry replaced the above accident rate, the new accident rate would be over 11 million! Since the Bureau of Motor Carrier Safety publishes statistics on the fatality and cost to property of accidents, we can show what the effect of reducing safety standards would be:

	Number of accidents	*deaths*	*damages*
Under IBT Safety Standards	290,000	26,000	$2.49 billion
Under "independent" Safety Standards	1,015,000	92,365	$7.3 billion

If safety standards went all the way down, the annual death toll to truckers would increase by 66,000, approximating the American casualty rate during the Vietnam War.

Of course, no matter how bad industry working conditions become, Teamster drivers will not resort to the extreme levels of drug use that promote the far higher accident rate among independents. In all probability, the accident rate will not rise by three and a half times. But it will rise sharply. To be on the conservative side, we will assume that the accident rate will double under deregulation, because large carrier-drivers will have to remain on the road for longer than the statutory limit of ten hours. Most accidents occur in the period of excess driving hours.

If this conservative assumption is correct, the deregulators will be responsible for an *additional* 290,000 accidents per year, an additional 26,000 deaths, and an additional $2.49 billion in property damage per year. Assume an average $40,000 settlement for each fatality, and the monetary cost rises by another $1 billion, to $3.5 billion

Perhaps it will take a period of one or more years for the deterioration to take full effect. In that case, the first-year cost of deregulation would be smaller. However, over five years, the number of fatalities would almost equal the list of Vietnam War dead.

The annual cost of the side-effects of deregulation is now $16.7 billion plus $3.5 billion, or $20.2 billion.

The final cost to be figured in is the additional cost of insurance.

According to the Interstate Commerce Commission, insurance accounts for only 2.4 percent of the total expenses of the regulated and unionized section of the trucking industry. As a percentage of 1977's total expense of $34.2 billion, this would amount to an insurance cost of $821 million. Approximately two-thirds of this covered property damage and one-third covered liability (property insurance protects the cab and the person of the driver, and liability insurance protects the trailer and cargo). These insurance rates, far lower than comparable expenses for a private car owner, reflect the high safety standards enforced by the International Brotherhood of Teamsters.

However, according to insurance companies who specialize in trucking insurance, owner-operators are considered an intolerably bad risk for liability insurance. Their rates are roughly three times in excess of those of the regulated carriers (which corresponds roughly to the already-reported higher rate of accidents among owner-operators). Assume, conservatively, that the insurance costs of the industry would double under the regime of deregulation. It would cost the industry more than $900 million a year (adjusting the 1977 figures for inflation to express the cost in 1979 dollars).

Our total cost is now $21 billion and over.

Probably, the full effect of deregulation in terms of higher costs and deteriorating safety standards would not take effect immediately. To be on the cautious side, we assume that it would take three years for the section of the trucking industry that represents an unpleasant relic of the 1930s to overwhelm the rest of the industry. In this case, the first-year cost would be $7 billion; the second-year cost would be $14 billion; the third-year cost would be the full $21 billion, and so on to $489 billion over five years. Since these additional costs would have to be paid out of industry's earnings, which would otherwise be invested, the actual cost to the economy—as measured by the LaRouche economic model—will be considerably higher. Even adjusted for inflation, the cost of trucking deregulation will far exceed the total cost of the Vietnam War.