Policy Analysis

Cato Institute Policy Analysis No. 84: The Disunited States: A Country in Search of an Efficient Transportation Policy

March 10, 1987

Robert V. Delaney

Robert V. Delaney is senior vice president of planning at Leaseway Transportation Corp.

Executive Summary

On October 17, 1986, Akio Morita, chairman of Sony Corporation, was the guest on *Wall Street Week.* Louis Rukeyser, the show's host, asked Morita, "What advice can you provide to help us reduce our trade deficit?" and he responded, "Your industry needs more relief from government regulation in order to restore your worldwide competitiveness."

Though Morita could have been referring to any of a host of regulations that unnecessarily increase the cost of goods produced in the United States, one area to which his observation is certainly applicable is transportation regulation, particularly the economic regulation of trucking. Despite the perception in some quarters that transportation was deregulated in 1980, the job was not completed. Regulatory bodies, particularly at the state level, continue to limit the ability of companies that wish to provide trucking services to enter the market and to set their own prices. Carriers, which haul goods, and shippers, which need goods moved, often are not free to write and act upon a mutually agreeable contract.

What does this have to do with worldwide competitiveness? As a result of the vestiges of economic regulation in Texas, for example, it costs Neiman-Marcus at least $1,000 more to ship a containerload of blue jeans from a Texas manufacturer than from a Taiwan manufacturer. That situation clearly does nothing to advance the textile industry's "Buy American" campaign.

The gains from the deregulation that has taken place are impressive. When trucking deregulation was being considered by Congress in 1980, the Congressional Budget Office forecast that by 1984 the legislation, if enacted, would save consumers $5 billion to $8 billion a year in the prices paid for goods and services. The facts are now available, and the economic benefits produced by partial deregulation are exceeding the Congressional Budget Office's initial estimates by a factor of 10. Moreover, current calculations of the annual savings enjoyed by U.S. producers and distributors as a result of partial deregulation range from a conservative $56 billion to a high of $90 billion.[1]

Those savings are doing more than just increasing the profits of American businesses. Gains in business efficiency have contributed to one of the nation's longest economic recoveries in the postwar period, and that consumers have benefited is evidenced by the low inflation rates that have prevailed despite record government deficits. In the international markets, the benefits of transportation deregulation are even more important. To continue to compete worldwide, U.S. companies must become even more efficient.

As important as the fact that savings have occurred are the changes that have driven them. There is more to the story

than just reduced transportation costs resulting from a more competitive environment. Much of the increased efficiency being experienced in corporate America can be attributed to the improved management of inventory and delivery systems. Costs have been cut dramatically because businesses have been better able to receive raw materials when they are needed and to deliver finished goods to customers when they are demanded. Maintaining inventories of raw materials and finished goods is much more expensive than either policymakers or the general public realize, and additional cost savings could be realized through increased efficiency in this area.

Unfortunately, economic regulation, particularly at the state level, remains a barrier to achieving the greatest savings possible. To demonstrate that the nation's competitiveness could be enhanced through further deregulation of the transportation industry, this study begins by explaining how the practice of "business logistics," coupled with partial deregulation, has led to the substantial cost savings experienced since 1980. The rigidities that have been imposed by regulation are then outlined. Finally, it is argued that the economic deregulation of the motor carrier industry should be completed as a major step toward ensuring that U.S. producers regain their international market shares.

The Role of Business Logistics

Table 1. Components of 1986 U.S. Logistics Cost	
Distribution Service	Cost ($ Billions)
Inventory carrying/holding*	
Carrying	98
Warehousing	
Public	6
Private	50
Total warehousing	56
Total carrying/holding	154
Transportation**	
Motor carriers	
Public carriers	54
Private and shipper-affiliated carriers	75
Local freight services	76
Total motor carriers	205
Railroads	29
Water carriers	18
Oil pipelines	9
Air carriers	6
Forwarders, brokers, and agents (net)	1
Total nonmotor carriers	63
Shipper-related services	3
Total transportation	271
Distribution administration	18
Total	443

* Source of methodology: L. P. Alford and John R. Bangs, eds., Production Handbook (New York: Ronald Press, 1955), pp. 396-97. Current data from the U.S. Department of Commerce.

**Source of methodology: Frank A. Smith, Transportation in America (Washington: Transportation Policy

Association, 1986), p. 4.

Business logistics involves planning and controlling an inventory, whether it is in motion or at rest. What began as a military discipline used in supplying troops has been adopted by private firms as a means of managing transportation, warehousing, order entry, customer service, inventory carrying, and distribution. All of those processes contribute to the cost of production. Table 1 identifies the components of the $443 billion logistics cost incurred by U.S. producers and distributors in 1986. An important goal of business logisticians is to minimize a firm's investment in raw materials and finished goods inventories and hence reduce the carrying costs.

Consumers and policymakers generally accept the accounting principle that inventories represent assets of a firm, and often their analysis ends at that point. They fail to consider the costs involved in stockpiling raw materials and finished goods, but inventory carrying costs are significant. According to the Production Handbook, edited by L. P. Alford and John R. Bangs, the carrying cost charged against the average value of an inventory can be broken down as shown in Table 2.[2]

Table 2. Carrying/Holding Costs As Percentages of Inventory Value

Cost Component	% of Value
Insurance	0.25
Storage facilities	0.25
Taxes	0.50
Transportation	0.50
Transportation	0.50
Handling	2.50
Depreciation	5.00
Interest	6.00
Obsolescence	10.00
Total	25.00

Source: L. P. Alford and John R. Bangs, eds., Production Handbook (New York: Ronald Press, 1955), pp. 396-97.

The so-called Alford-Bangs formula has been generally accepted for more than 30 years, but when comparing annual inventory carrying costs over time, it is necessary to replace the assumed 6 percent interest rate with the prevailing commercial paper rate, if it is higher. In 1981, for example, when the average interest rate on commercial paper rose to 15.3 percent, most companies' carrying costs climbed to 34.3 percent of the market value of the inventories held in stockpiles and warehouses.

To business logisticians, determining the optimum level of investment in, and location of, a firm's inventory is a matter of managing the tension between the carrying cost on one hand and the cost of being out of stock on the other. At the production level, stock-out costs are incurred when the supply of raw materials or other necessary inputs is exhausted and manufacturing schedules are interrupted. The direct cost of being unable to produce or being able to produce only at a diminished rate is readily measured. At the marketing level, stock-out costs are incurred when a customer is unable to purchase a finished product in the desired quantity, style, grade, or condition. The penalties for being out of stock are both qualitative and quantitative. Will the customer accept a back order? Will the customer accept a substitute? Will the sale be lost to a competitor? Will the customer become so disenchanted that he or she will cease to be a customer? Statistical analysis and sampling techniques that quantify the average cost of merchandise stock-outs have also been developed and validated.

The Inefficiencies of Regulation

To control investments in inventory, it is crucial that the performance of transportation services be consistent and

dependable. Yet in attempting to integrate transportation services into distribution systems that would minimize both inventories and the probability of costly stock-outs, business logisticians were long confronted by an entrenched political institution. The transportation industry had its own laws, special banking arrangements, and unique labor relations. The regulation long imposed on the industry treated the transportation expenditures of producers and distributors as an economic pie. The various transportation modes (for example, railroads and trucks) and classes of carriers (for example, less-than-truckload specialists, common carriers, and private carriers) competed for pieces of that pie. The Interstate Commerce Commission and the other transportation agencies allocated market shares, guided by their understanding of congressional intent. As a result, it was not enough that a trucking company and a firm with goods to ship agreed on a price and a timetable for shipments. Every tariff (a trucking company's schedule of fees) and contract had to be ratified by the ICC or by state regulators if it differed from the set rate and route. Even when successful, the process of obtaining such approval could take years, during which time, of course, the shipper's needs could change substantially.

Lawmakers and policy analysts did not perceive that transportation services create nothing; the demand for them is derived from the production they support and the markets they serve. When transportation services underperform, excessive investments in inventory and a proliferation of holding locations follow.

Consider the frustration embodied in this 1976 statement by a logistician: Many critical decisions concerning inventory buildup, consolidation planning, and so forth, are predicated on the scheduling services offered to us by the various common-carrier modes. I would rather have a carrier give me consistent third day, reliable service than to get 25 percent overnight, 50 percent second morning, and 25 percent third morning. From a planning standpoint, this is exceedingly difficult to cope with.[3]

As the 1970s progressed, producers and distributors were paying more and more money to transportation carriers that were providing less and less service. A popular bumper sticker said, 'If you got it, a truck brought it." There was no mention, however, of how long "it" took to get there, the route "it" traveled, or the condition "it" was in upon arrival. The profit margins of truckers were especially high. Their terminal networks were loaded with merchandise in transit. Most producers and distributors responded in two ways: either they built excessive inventories to buffer transportation-related problems or they began to operate their own trucking systems. Many of them did the latter. Even among those producers who tried a third option, working within the regulatory system, many were forced to adopt either the safety stocks or the private trucking alternative.

Given the scarcity of transportation alternatives, logisticians attempting to manage the tension between inventory carrying costs and inventory stock-out costs had to assign a high probability to the scenario that stock-outs caused by the late arrival of shipments would occur. Safety stocks served as a buffer in the inventory management system; they were used to reduce the impact on cost and service of being out of regular inventory. During the inflationary 1970s, however, producers and distributors were forced to take steps that actually exacerbated the problems caused by their not receiving timely shipments. During the wage and price control efforts of 1972 and 1973 in particular, when key materials were believed to be in short supply, they began backlogging inventory to avoid stockouts. Lead times increased and backlogging accelerated. When the recession of 1974 occurred, lead times decreased and orders dropped, but stockpiled goods and back orders remained. All of 1975 was required for U.S. producers and distributors to work their way out of the inventories they had accumulated. Manufacturing and trade inventories were rebuilt and maintained at relatively high levels between 1977 and 1980. We entered the 1981-82 recession with large inventories financed at record interest rates.

How excessive was the investment in inventory prior to the 1980 deregulation of the transportation industry? In the 1970s it was common for manufacturers to hold as much as 50 percent of their assets in inventory (and 20 percent to 40 percent in raw materials).[4] Business logisticians knew that what Congress was introducing through the 1980 deregulation was not merely more competition but also the means to accelerate inventory turnover velocity. We were going to put our inventory in motion instead of keeping it at rest.

In addition to building their inventories, many manufacturers found it worthwhile to invest in their own trucking systems. Private trucking companies--that is, those owned by the manufacturers for which they hauled goods--flourished. Unfortunately, regulations prevented the trucking companies from transporting goods for other firms or

other subsidiaries of their parent corporation. Often the result was admittedly wasteful, inefficient operations and a large proportion of empty miles traveled by the so-called private truckers. That those trucking companies, run by firms primarily in some other business, flourished is a testament to the excessive costs and lack of dependability of the regulated common carriers.

James A. Ryder was one of the first transportation execu- tives to anticipate the decline of the common carrier system. In 1962 he sold his common carrier, Ryder Truck Lines, and concentrated his resources on building Ryder Truck Rental. Having foreseen the problems that trucking regulation would cause, Ryder was in a position to take advantage of the 13 percent annual growth rate of private trucking during the 1960s and 1970s. He established a rigorously controlled maintenance network at strategic points in the North American highway system, and he standardized every detail of his outlets' service. By 1970 Ryder Truck Rental was the clear leader in the truck leasing industry. Ryder succeeded because he understood the vulnerability of the common carrier system due to economic regulation. Regulated carriers' freight rates were so high that Ryder told his sales force they should be able to sell the idea of private trucking using leased equipment to any producer or distributor that had at least a 20 percent backhaul of supplies.

A joint study that the ICC and the Federal Energy Administration completed in 1977 struck a similar theme. The study found that though private carriage was being operated with more than twice as many empty miles as for-hire carriage, private carriers had captured 60 percent of the intercity ton-miles because the cost of regulated trucking services was so high. That clearly represented an inefficient allocation of resources, especially diesel fuel, during a period when the rest of the nation's industries were working to conserve energy. The following statement reflects the thinking of many trucking executives at the time:

Private carriage was born out of necessity. The primary impetus was service improvement. If economies result, it is a welcomed gain. We have found, however, that in our private truck[ing] operations people have the ability to improvise and innovate on a day-to-day hour-to-hour basis almost beyond imagination, and we are credited with a substantial improvement in sales in many produce areas as a result of the service rendered to our customers.[5]

Instead of increasing their inventories or beginning to operate private carriers, some producers and distributors responded to the inflexible regulation of the common carrier industry in a third way. They attempted to attack the problem through the administrative process and make the system work. Monsanto Textiles filed 22 'public convenience and necessity" applications with the ICC between 1968 and 1972 in an effort to establish its customer service standards as reasonable justification for granting it new and expanded operating authority. (See Table 3.)

Table 3. Customer Service Standards (Days)

Length of Haul (Miles)	Truckload	Stop-Off Truckload	Less Than Truckload
0-300	1	2	3
301-500	2	3	4
501-800	3	4	5
801-1,200	4	5	6

Monsanto argued that the shipping public was entitled to single-line motor carrier service for the pickup, linehaul, and delivery of its products. In some cases the ICC agreed, but in others it held to its policy that joint-line services were the equivalent of single-line services. The commission ignored Monsanto's customer service standards. Finally, in the mid-1970s, even Monsanto was forced into private carriage.

The delivery standards that were litigated so strenuously in the 1970s are routinely surpassed in the 1980s. American Hoechst Fibers' customer service policy is to deliver all orders on routes under 1,000 miles within 48 hours. Trucks operated by driver teams are crossing the country in three days. Our inventory is now on wheels.

The Benefits of Partial Deregulation

The decision by Congress to partially deregulate the transportation industry in 1980 effectively removed the ICC from the business of allocating market shares. In 1980 no motor carrier had the authority to operate in all 48 contiguous states; by 1985 more than 4,000 motor carriers had that authority. The industry's operations have become more efficient. In 1980 motor carriers operated 1.4 million heavy-duty diesel tractors; in 1985 they operated 1.1 million. By conservative measures, the nation's logistics cost in 1985 was $56 billion below the 1980 level, $30 billion in savings from reduced inventories and $26 billion in savings from improved transportation efficiency. That $56 billion represents $250 in savings for every man, woman, and child in America--an effective increase in disposable income of $1,000 for a family of four.

More tonnage is being delivered with a lower investment in assets, and motor carriers are wasting less energy. Under federal regulations, carriers' operating certificates restricted the length and direction of hauls, the commodities that could be transported, and the gateways that could be used. To get from Birmingham, Alabama, to Atlanta, Georgia, for example, one carrier was required to go through Chattanooga, Tennessee. As a result, between 1965 and 1980 truck ton-miles had an annual compound growth rate of 10.7 percent, while the gross national product grew by only 3.2 percent annually. Since 1980, when the operating restrictions were removed, truck ton-miles have grown at the same rate as GNP.

The private carriage operated by producers and distributors has also become more efficient. The regulations that prohibited such operations from serving other subsidiaries of their corporate parent have been eliminated. Furthermore, deregulation has encouraged compensated intercorporate hauling. Private carriers have been permitted to obtain common carrier authority and transport goods for other companies. Doing so has enabled the private trucking subsidiaries to reduce their empty miles by two-thirds and to earn income in the process. Private shipper-affiliated carriage has grown at an annual compound rate of 7 percent since 1980, while for-hire motor carriage has grown by 5 percent annually. In fact, though a great deal has been written about the 14,000 companies that entered the trucking business following deregulation, six out of seven of the new certificates were granted to private carriers and owner-operators that were already in the trucking business.[6] Under deregulation, motor carriers are operating less equipment far more efficiently than they did under regulation.

As competition reduced profit margins, an increase in the speed of asset turnover became mandatory. One simply does not find terminals or trailer yards full of goods any longer. There is now an incentive to deliver the goods in the shortest possible time, then reposition the drivers and equipment for their next operation.[7] The shift to rapid delivery and turnover has coincided with the trend toward just-in-time manufacturing, an inventory management technique widely practiced in Japan. A survey of manufacturing companies in 1985 showed that 40 percent of the respondents had implemented just-in-time inventory management. Their average improvement in inventory turnover was 23 percent. Another 40 percent of the respondents indicated that they intended to implement just-in-time techniques by 1987.[8]

The availability of flexible, responsive motor carrier delivery service seven days a week and three shifts a day has permitted producers and distributors to eliminate safety stocks, invest less in inventory, and hold what they have in fewer locations.[9] Depending on which measurement is applied, during the latest recovery our economy has been operating with 15 percent to 21 percent less investment in inventory than was required during the inflationary decade 1971 to 1980. Phenomenal successes began to be reported in 1983. Ford reduced its inventories by $750 million, Chrysler by $200 million. Harley-Davidson reduced its raw materials and work-in-progress inventories by 38 percent. And the inventory turnover rate at Lever Brothers increased by a factor of two. The increase in turnover velocity and the overall reduction in distribution costs are among the factors that have prolonged our economic recovery and contributed to the moderation of inflation since 1982.[10] Deregulation has worked like magic.

A final measure of the importance of the savings that partial deregulation has brought about is that recent graduates of Ohio State University who majored in business logistics commanded higher starting salaries than any other students in the business school--including those who majored in computer science.

Many economists have missed the point entirely. Taking a historic perspective, they have forecast that inventories would be rebuilt, that economic growth would be stimulated, and that inflation would follow. But inventories have not been rebuilt. In fact, the latest information available from the Department of Commerce indicates that inventories are at

their lowest level since March 1984. (See Figure 1.) In the face of declining profit margins, reduced inventories have permitted U.S. producers and distributors to support increased sales with less average investment. The changes to date have been beneficial, but U.S. industry must do better if it is to restore its worldwide competitiveness. We are living in a rapidly changing world, and three tools have unleashed new forms of competition:[11]

Figure 1. The Value of Manufacturing and Trade Inventories Compared with Monthly Sales Revenues* (%) 1972-1986

[Graph Omitted]

Source: Federal Reserve Bank of St. Louis; based on U.S. Department of Commerce data.

*The ratios are based on seasonally adjusted data.

1. Today's communications network transmits images, sound, and documentation to the far corners of the earth instantly, as events take place--and at reasonable costs.

2. Electronic hardware and software systems receive data and transform them into meaningful and timely information or instructions that control other machines.

3. A transportation system with a worldwide frame of reference moves people and inventories rapidly and economically. In fact, for some industries, the deregulated international transportation system has become less costly and more efficient than the partially regulated domestic transportation system.

The breakthroughs in communications and information processing have been helpful, but the engine that really drives the efficiency of the U.S. logistics system is the trucking industry. Analyzing inventory levels and communicating instructions are one thing; delivering products at the appointed time and to the appointed place in response to such communications is quite another. The partial deregulation of our nation's transportation industry has made possible dramatic reductions in the carrying and transportation costs incurred by producers, distributors, and ultimately all consumers of goods and services.

Figure 2 displays the decline of U.S. logistics costs in relation to GNP. At the macroeconomic level, the logistics expenditures of U.S. producers and distributors in 1986 were more than $100 billion below the predederegulation level. Savings were also reflected at the level of individual firms. The Davis Data Base of 300 manufacturers and retailers that report their expenditures in a standard cost format indicates that the ratio of logistics expenditures to sales revenues declined by 20.6 percent between 1981 and 1986. That amounts to $90 billion in savings since deregulation took effect.[12]

Unfinished Business

Though we have made solid progress in lowering our logistics costs since 1980, our productivity gains from the deregulation efforts to date have peaked. Serious impediments to further gains remain, primarily in the form of restrictive regulations at the state level. In fact, 43 states continue to prohibit the operation of new, more efficient services within their boundaries. U.S. producers and distributors are therefore forced to operate two logistics systems: a competitive and increasingly efficient interstate system and a protectionist intrastate system.

Figure 2. The Ratio of U.S. Logistics Costs to GNP
Source of methodology: J. Heskett, R. Ivie, and N. Glaskowsky, Business Logistics, 2d ed. (New York: Ronald Press, 1973). tured in Georgia of fibers produced in Alabama. If the carpet is shipped directly from the Georgia manufacturer to a Texas consumer, then it is considered interstate traffic and can move at deregulated rates, but if it comes to rest anywhere in Texas before reaching its final destination--whether that is a department store or a warehouse run by the Georgia manufacturer--it qualifies as an intrastate shipment and is subject to state regulation. Naturally, such distinctions make it difficult for manufacturers and retailers to establish efficient delivery networks. Not surprisingly, Armstrong Industries, the Quaker Oats Company, and others have petitioned the ICC to declare that intrastate regulation is an invalid obstruction of the free flow of interstate commerce.[13] The Department of Transportation has

joined those cases on behalf of the petitioners.
(graph omitted)

In February 1986 Sen. Robert Packwood introduced S. 2240, a measure designed to end the economic regulation of the trucking industry by removing the federal government's remaining but unused regulatory authority and preempting regulation by the 43 states that continue to fix prices and control market entry. Trucking companies accounting for more than two-thirds of the industry's total assets favored the measure, but the trucking industry as represented by the American Trucking Association did not. Packwood decided not to attempt to push his legislation through in the face of opposition by the ATA.

Instead of supporting Packwood's bill, the ATA expressed a desire to further study the issue and assembled a blue-ribbon panel of 37 executives to assess the impact of ending economic regulation. Their report was disappointing. They urged that no further deregulatory steps be taken; in fact, they recommended that additional restrictions be placed on the private carriers that had become involved in intercorporate hauling.

The blue-ribbon panel was not representative of the trucking industry as a whole, however. Its member firms were heavily concentrated in the less-than-truckload (LTL) segment of the market. It is in this area particularly that state regulation has frustrated the entry of new competitors. The existing LTL carriers have prospered as a result of government-imposed price fixing and market protection. The status quo is a good deal for the LTL truckers represented on the blue-ribbon panel, but it is harming American consumers and undermining U.S. producers' ability to compete effectively, even in their home markets.

According to the last U.S. transportation census, 60 percent of all motor carrier tonnage is defined as intrastate. The integration of intrastate and interstate inventories into more efficient delivery systems would reduce costs and reduce the necessary investments in inventory even more. Companies do not have intrastate inventories and interstate inventories. They simply have inventories, and creating an environment in which they could manage them more efficiently would be an important step toward bringing the prices of U.S.-made goods in line with world prices.

Based on current GNP and the most conservative method of calculating macroeconomic logistics costs, the annual savings that would result from ending regulation would amount to $28 billion by 1990. Half of that $28 billion in savings would result from increased competition among trucking services. Carrying and holding cost reductions would account for $13 billion. U.S. producers and distributors would also save $1 billion in administrative costs when the pricing of services became more systematic and automated. If deregulatory legislation became law this year, the total savings between 1987 and 1990 would amount to $87 billion. The breakdown by cost component is shown in Table 4.

Table 4. Logistics Savings from the Deregulation of Trucking ($ Billions Except GNP)

Table 4. Logistics Savings from the Deregulation of Trucking ($ Billions Except GNP)						
Year	GNP ($ Trillions)	Value of Inventory	Carrying Cost	Transportation	Administration	Logistics Cost
Status Quo*						
1986	3.98	590	154	271	18	443
1987	4.10	607	164	279	18	461
1988	4.22	625	169	287	19	475
1989	4.35	644	174	296	20	490
1990	4.48	663	179	305	20	504
Deregulation**						
1986	3.98	590	154	271	18	443
1987	4.10	596	161	267	18	446

1988	4.22	602	163	274	18	455
1989	4.35	608	164	283	19	466
1990	4.48	614	166	291	19	476

* Assuming that GNP growth = 3 percent compound, inventory value = 14.8 per- cent of GNP, transportation costs = 6.8 percent of GNP, and administrative costs = 4 percent of logistics cost.

**Assuming that GNP growth remains at 3 percent compound, inventory growth = 1 percent compound, transportation costs = 6.5 percent of GNP, and administrative costs remain 4 percent of logistics cost.

But total deregulation could deliver savings even greater than $28 billion a year. The final tally depends on how entrepreneurial and innovative logistics service companies are in responding to the needs of a deregulated marketplace, especially in the less-than-truckload segment, where entry and innovation have been restricted. With the nation's factories, mines, and utilities operating at only 80 percent of capacity, U.S. producers and distributors must have inventory turnover acceleration and the support of efficient delivery systems to restore their worldwide competitiveness. Why do we continue to chase the changing times? We must get in front of the efficiency curve. We need to reform transportation policy and increase competition.

Conclusions

The nation's trade deficit grew to $146 billion in 1985 and was reported to be $170 billion in 1986. A massive deficit is not a new phenomenon and cannot be explained by the recent strength of the dollar. The U.S. trade deficit actually began to grow in the second half of the 1970s, when the value of the dollar was at a historic low. This suggests that a decline in the dollar will not be enough to enable U.S. industry to resist imports and substantially strengthen exports. We can no longer sell our way out of our cost problems. U.S. producers and distributors must become more efficient. We cannot blame the Japanese for the fact that our distribution systems are inventory intensive. The real question before all Americans now is what can be done to restore our worldwide competitiveness.

In his State of the Union Message (as recorded in the Congressional Record), President Reagan recognized the importance of an efficient transportation industry to efforts to improve the position of U.S. manufacturers in world markets. He promised, "We will reinforce our efforts to improve the competitiveness of American industry through deregulation and paperwork reduction. . . . We will press for legislation to complete the deregulation of the trucking industry."[14] The Department of Transportation has already prepared legislation to that effect and sent it to the Office of Management and Budget for final approval. The legislation was expected to reach Capitol Hill by March 1.

The key provision in the next round of transportation deregulation is the freedom to introduce efficient, responsive integrated logistics systems into all markets. The goal is to create an environment in which any public or private carrier that is safe and financially responsible can haul anything anywhere at any price for anyone at any time. As matters stand, seven progressive states and the federal government have gotten out of the business of fixing prices and regulating market entry. That is progress, but clearly it is time for the other 43 states to follow. We are not the Disunited States. We are the United States--one country, one people competing in one world. We need a public policy that allows the nation's producers, distributors, and transportation companies to form innovative, cost- effective partnerships that can move goods through the supply chain efficiently.

The Asians and the Europeans are significantly ahead of us in the development of efficient logistics systems because economic regulation has frustrated the development of such systems in the United States. Economic regulation is unjust in its principles, impractical in its means, and ruinous in its consequences. It is time to finish the deregulation job begun in 1980.

FOOTNOTES

[1] Robert V. Delaney, "Managerial and Financial Challenges," Transportation Quarterly (January 1986): 36.

[2] L. P. Alford and John R. Bangs, eds., Production Handbook (New York: Ronald Press, 1955), pp. 396-97.

[3] Walter L. Weart, Railway Age, January 26, 1976.

[4] G. D. Jackson, "Just-in-Time Production: Implications for Logistics Managers," Journal of Business Logistics (September 1983): 1-19.

[5] George G. Agamem