Sweatshops on Wheels

Deregulation and Low-Road Competition in Trucking

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What would the world look like if we all worked like truck drivers?

- We would have no 40-hour regular work week
- We would work an average 60 hours per week
- We would have no regular work schedule
- All pay would be production-based “piecework”
- Our wages would stop when production stops, even when outside our control
- Employers would decide which work activities are paid and which are not
- Unpaid work time would average 25% of work week

Imagine a perfect labor market:

- Every employee is a perfect price-taker
- Individual's only bargaining power comes from the market: the shortage of his or her skills

→ Trucking companies put drivers under constant pressure to work more hours and drive more miles.

Imagine a labor market in which wages are in competition all the time and firms compete based on wage costs alone.

This may sound like the 19th Century,

but this is the world of the truck driver in the 21st Century.

Are these really sweatshops?

- Classical definition:
  - Low wages
  - Long hours
  - Unsafe and unsanitary conditions
  - Piece-work and subcontracting
- Competition to drive down cost globally has led to growing debt peonage (“share-cropping”)
  - Lease-purchase employment contracts require that drivers buy their trucks to buy their jobs
  - Examples as large as FedEx and whole sectors across trucking
  - Drivers recruited from outside the US and Canada work as indentured servants

National Industrial Recovery Act of 1933

- Followed a theory of regulation based on Say's Law (1834)
  - "Supply creates its own demand"
  - Accepted throughout 19th Century, through the Great Depression
  - Repudiated by JM Keynes in Book 1 of *The General Theory of Employment, Interest, and Money*, 1936
- NIRA objective was to reduce competition in order to increase profits and wages

Regulation

Motor Carrier Act of 1935 also followed Say's Law.

- Put trucking under the Interstate Commerce Commission, which regulated railroads since1887
- Trucking regulation patterned after railroad regulation
- MCA restricted competition to carriers already in the market
- Created operating authority for these truckers
  - Common Carriers, offering service to general public
  - Contract Carriers, offering service to a few shippers
- Carriers attempting to compete against carriers with existing authority had to demonstrate unmet need and the capability to offer service to any customer on a non-discriminatory basis

What did regulation do?

1. Made carriers responsible for the freight they hauled
2. Mimited entry to those carriers that could prove both the need for new service and their fitness to deliver that service
3. Defined the commodities for which carriers had authority
4. Prohibited discrimination in price and service
5. Encouraged collective ratemaking
6. Discouraged below-cost pricing
7. Disallowed rebates and kickbacks
8. Authority specified routes and service points

Deregulation

- Prompted by economists who argued that trucking is essentially competitive, and competition should not be restricted
  - Rejected long-standing concern for “destructive competition”
  - Ignored differences between transport and other services
- Deregulation wave responded to high 1970s inflation
- Rode the wave of Chicago School ”free market” ideology

- Motor Carrier Act of 1980
  - Weakened the role of the ICC over trucking
  - Eliminated the routes and services regulations
  - Broadened reliance on market, so anybody could compete
  - Began reduction of data gathering

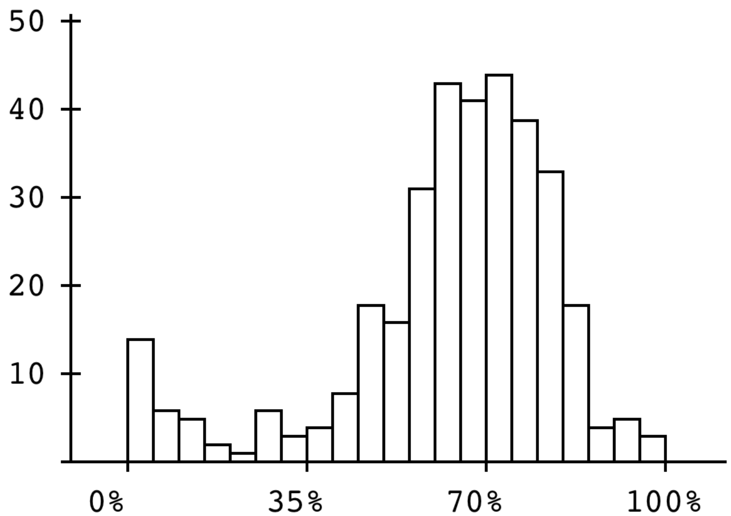
What did deregulation do?

- Created competition along new market niches:
  - √ type of freight
  - √ type of service
  - √ type of handling
  - √ geographic range
  - √ price of service
  - √ quality of service
- Made all truckers exempt from economic regulation
- Non-union competition flowed in from the regulatory “exempt” sector—mainly ag and raw material haulers
- Weakened collective bargaining dramatically
  - Union density dropped from 60%-70% down to current level of 7.2%
  - Caused corresponding drop in compensation by about 50%
- Created demand for speed, predictability, low loss & damage

Restructured Trucking

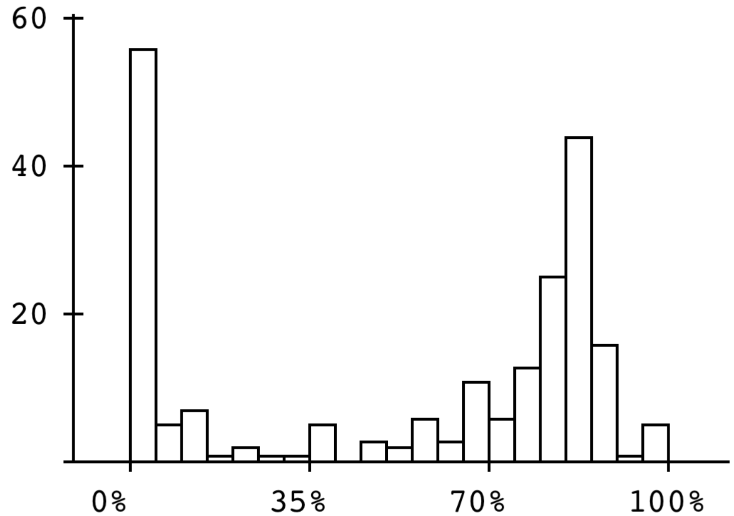
General freight common carriers fragmented, splitting into two sectors: LTL and TL.

Proportion of Carriers' General Freight Shipments that were LTL Shipments in 1977



Source: American Trucking Associations 1978. The vertical axis is the number of carriers. The horizontal axis is the ratio of LTL revenue to total revenue for each carrier.

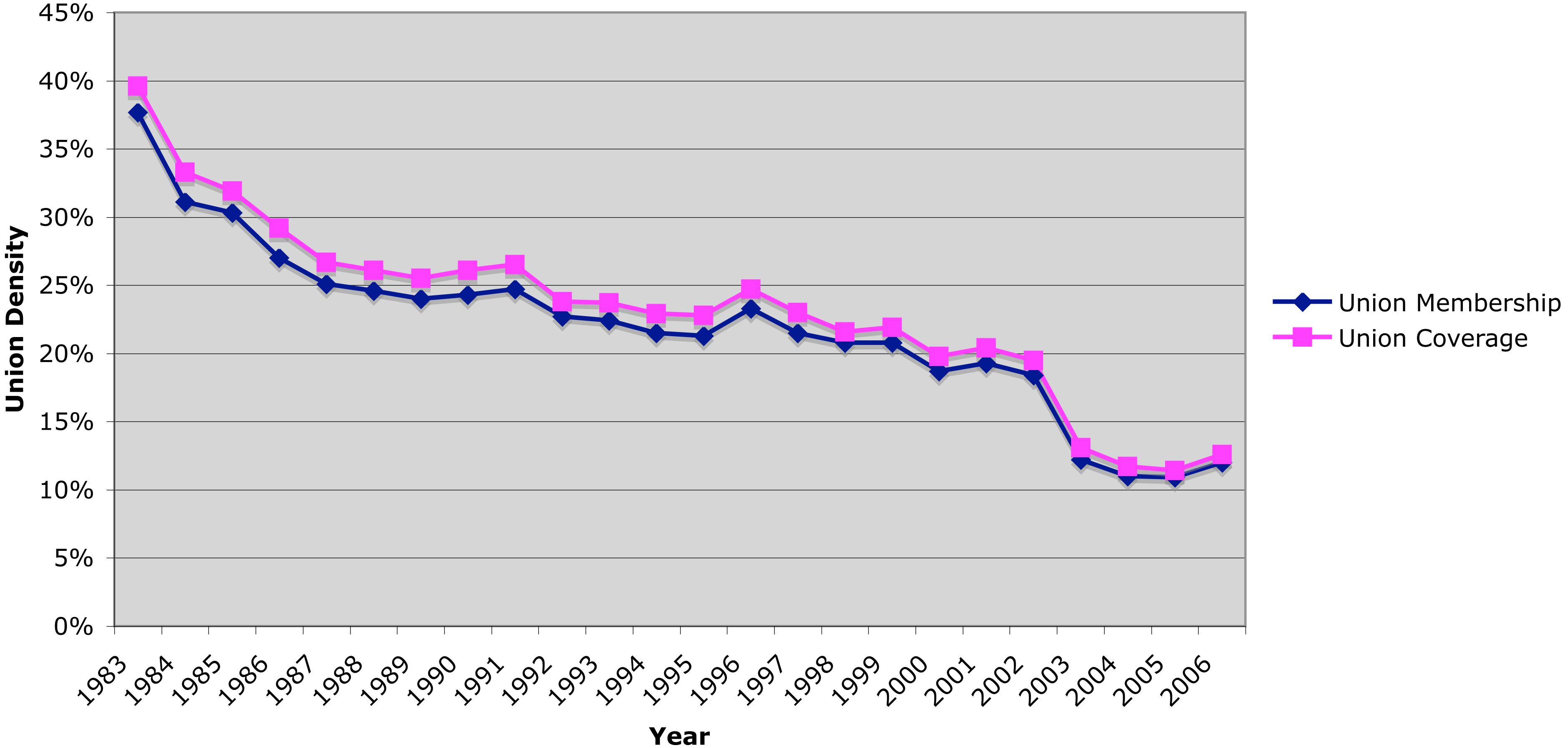
Proportion of Carriers' General Freight Shipments that were LTL Shipments in 1987



Source: American Trucking Associations 1988. The vertical axis is the number of carriers. The horizontal axis is the ratio of LTL revenue to total revenue for each carrier.

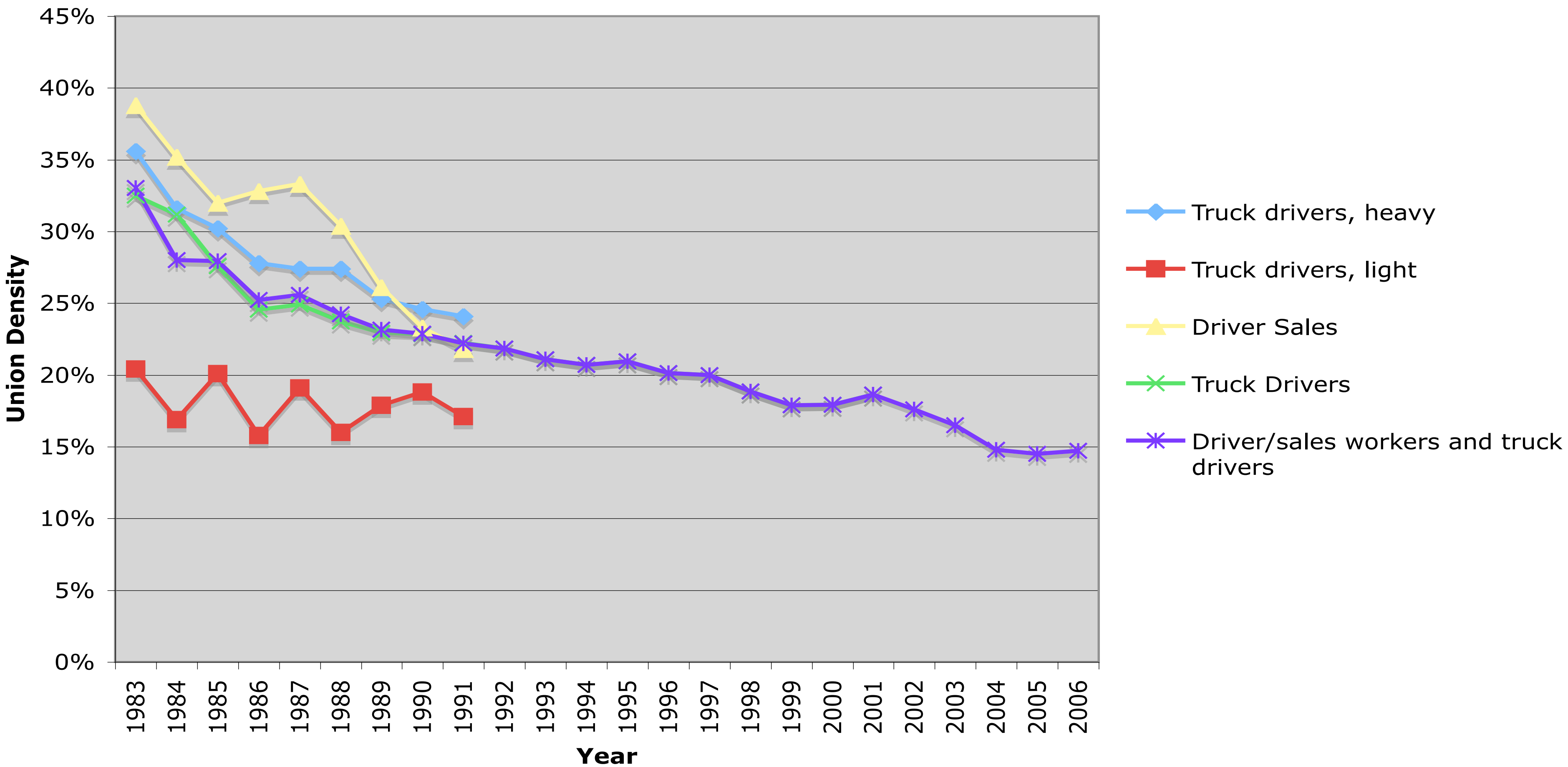
Union Representation Declined to 7.2%

Union Density in Truck Transportation Industry



Union Representation Declined Among Drivers

Truck Driver Union Density



Cost Competition Drove Us Down the Low Road

- Changes in operating cost restructured trucking quickly after deregulation
  - Motor carriers struggle to make money
  - Primary determinant of unregulated transport pricing is cost of operation
  - Carriers must reduce cost continuously to reduce price
- Shippers view freight transport as a commodity
- Probably 3/4 of all cost-savings came from reducing wages and benefits

Destructive Competition Drives Poor Wages & Conditions

- Truck drivers now earn about $50,000/year for an average of 3,200 hours of work or more, paid piecework.
  - $15.63 per hour for 60 hours/week at straight time
  - If they were covered by the FLSA, they would be paid for 3,760 hours, at least, and the pay rate would be $13.30.
  - The GOT Truckers Act, currently before Congress, would ensure that all time at work would be paid, but this still is stalled.
- Many have no health insurance, few have pensions, and 401(k) type retirement savings requires vesting, which many will never reach, as trucking turnover is around 100%.
- Federal regulations allow drivers to work 84 hours/week by "restarting" their 70-hour clock, yet more than 25% still violate hours of service (working time) rules.
- Also log unpaid non-driving time off duty; don't record hours

Subcontracting

- Pervasive subcontracting and fragmented industry.
  - As many as 550,000 carriers
  - Perhaps 300,000 owner-drivers (no accurate data)
  - 75% of owner-drivers leased to motor carriers
  - Perhaps 25% of owner-drivers operate on their own authority (actual owner-operators, who operate their own businesses)
- Common Law treats all of them as "independent contractors" and hence they may not organize.
  - Canada or Australia consider contractors as "dependent contractors" so they can organize.
  - Negotiation resolved contractor strike in Vancouver
  - Many unionized in Australia
  - Strong effort by Teamsters to organize them in the U.S.
- Definition of employment is loosely regulated and subject of long-standing litigation and legislation

Driver Turnover vs. “Shortage”

Two critical issues face trucking and supply chain

- Driver turnover in the current market averages 100%/year
  - It has been as high as 130% or more
  - Carriers must search for and hire drivers continuously
- Carriers worry about a “driver shortage”
  - Have complained about this for almost 40 years
  - Original pre-deregulation workforce moved down market until they either left trucking or left for age- or health-related reasons
  - Current aging driver work force is not being replenished
  - Millennials are not willing to work 60+ hours/week away from home
  - Carriers won’t get more workers by campaigning for more liberal regulation; they consider compensation a zero-sum game
- This issue really is <u>recruitment and retention</u>, not shortage

Driver and Motor Carrier Safety

Research shows competition and safety conflict

- Carriers with high turnover have biggest safety problems
  - Lower wage, dissatisfied drivers
  - Low wage drivers are less skilled and less safety conscious
  - Research shows drivers who are new on the job are less safe
- Carriers with low wages have biggest safety problems
  - J.B. Hunt raised compensation by 38%. In 1997 they:
    - Reduced turnover from 96% to 48%
    - Reduced small crashes by 50%
    - Reduced big crashes ($5,800+) four-fold
    - Reduced casualty, recruitment, and retention costs
    - Benefited from significantly greater productivity
  - Across 102 TL carriers, 10% greater compensation (pay rates and benefits) associated with 9.2% lower crash rate
- Higher-wage drivers earned $10,000 NPV to company

Driver Work Pressure and Safety

- Large Truck Crash Causation Study documented 1,000 truck crashes
- In about half of these crashes, the truck driver was the last person who could have avoided the crash

  This has nothing to do with who is at "fault"
- Can we predict which driver is "Assigned Critical Reason for the Critical Event" based on work-related stress factors?
- Workplace pressure and fatigue contribute to crashes
  - Work stress (new job, shipping deadline, work schedule, schedule extensions and changes, productivity quotas, extra and last-minute dispatches, declining pay, last-minute dispatches, unpaid loading)
  - Aggression
  - Fatigue
  - Accounts for 15% of likelihood that truck driver responsible

Final takeaways

- Deregulation of the transport sector led to lower cost and greater service options in each sector.
- Deregulation initially led to greater concentration in capital-intensive and complex LTL and integrator sector.
- Deregulation led low-road long-haul TL sector to displace common carriers.
- Eventually low compensation competition weakened union sector
- Most of the savings is due to lower driver compensation.
- Low-cost drives customer choice, yet they demand premium service.
- Truck driver retirement options have virtually disappeared.
- Ineffectual individual retirement accounts mean drivers cannot retire.
- Truckers initially bankrupted and used ESOPS to cut workers compensation.
- Have shifted to “lease-purchase” debt peonage and indentured servitude to supplement the domestic labor market.

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Supplemental Resources

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