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# Effect of Deregulation on Labor Markets

By: James Peoples | October 27, 2020

## In brief…

James Peoples is a professor of economics at the University of Wisconsin - Milwaukee, and he participated in our recent webinar series, Delivering the Goods, that looked at how the Staggers Rail Act and Motor Carrier Act were passed, and what effect they had on the surface freight industry. Professor Peoples' reflects continues his reflections in this Commentary.

The rail and trucking deregulation forty years ago influenced their respective labor markets in important but different ways.

The Staggers Act produced monumental changes in the rail industry's labor market. Prior to regulatory reform, the heavily unionized rail industry operated in a high-labor cost environment, reflecting use of an excessive amount of labor, costly work and pay rules, and high wages. Following the enactment of this legislation, the work force shrank considerably (partly due to technological advancements reducing worker redundancy and partly due to negotiation settlements that reduced the size of operating crews and terminated the burdensome 100 mile-day rule). However, union participation rates remained high (over 70%) and wages remained high (for transportation operatives, such as conductors and engineers). At the same time, greater opportunity to abandon unprofitable lines attributable to passage of the Staggers Act also created opportunities for nonunion short-line carriers.

The 1980 Motor Carrier Act (MCA) also ushered in dramatic changes to the labor market for truck drivers, especially in the for-hire sector. Prior to regulatory reform, regulation of rate and entry in interstate trucking created a noncompetitive business environment that enhanced the ability of the Teamsters to organize this sector of the truck driver labor market and contributed to Teamster members receiving relatively high union wages. The lack of competition along routes in the for-hire sector also create a business environment that facilitated discriminatory labor practices and limited the scope of operations for self-employed owner operators. For example, prior to deregulation black drivers were segregated in the lower wage local cartage sector. Such segregation contributed to a dearth of blacks employed in the much more lucrative long-haul segment of the industry. Further, the majority of black drivers who were employed as long-haul drivers were likely to work for smaller, less profitable carriers. Regulation also create entry barriers for self-employed owner-operators as they were prohibited from obtaining the necessary operating authority that would allow them to function as regulated, for-hire motor carriers. Prohibition of their operations in the trucking industry severely limited the competitive domain of this key sector of the motor carrier industry, Empirical evidence reveals a significant erosion of the union wage premium in the for-hire sector (this differs from rail), and a nontrivial increase in the workforce in this labor market. In addition, under competitive pressure following regulatory reform, the prevalence of discriminatory employment practice in the high-wage long-distance sector has declined. The emphasis on cost reductions in this competitive environment also contributed to greater employment opportunities for owner-operators. Despite differing labor market trends both industries experienced a declining labor cost/total cost share.

Related to changes in the labor market are notable changes in the overall input market. Specifically, research on productivity growth in trucking shows the cost of inputs (labor, capital, fuel, and purchased services) declined with increasing length of hauls. These productivity gains are attributable in part to technological advancements (improved communications systems, use of fuel-efficient trucks) introduced in the post-MCA era.

Research on the use of inputs in rail reveals use of labor, fuel, materials, equipment and way (track) and structures align in a cost minimizing manner following the passage of the Staggers act. Significant easing of work-rule restrictions contributed to these efficiency gains.

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