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Report Reviews Deregulation's Impacts on Rail Labor Force

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Several recent developments have drawn renewed interest in regulations governing the railroad industry, suggesting that further regulatory changes may lie ahead. Although impacts of rail deregulation on pricing, profitability, productivity, and service have been well documented, its impact on rail labor has not been well understood. It seems essential that decision-makers gain an understanding of the potential impacts of regulatory change on labor before making further regulatory changes.

Brief History: Regulation, Earnings and Employment

Because of a variety of conflicting forces, there is no way to accurately predict the effects of regulation on unionized employment and earnings. On one hand, regulation may create rents for firms by restricting entry into the industry and by price setting — providing the opportunity for increased union wages, through rent sharing, and increased employment. On the other hand, regulation may limit the firm's ability to make productivity gains due to restrictions on pricing and service — a factor which, in turn, could limit growth in earnings and employment. Additionally, regulated firms are often required to serve unprofitable markets - a requirement that may enhance employment, but reduce productivity and wages.

Prior to the start of deregulation, the railroad industry faced major financial problems due to decreased profitability and loss of market share in terms of freight-ton miles. Six of the nation's major railroads were facing possible bankruptcy. Regulations forced lengthy merger proceedings and track abandonment hearings, lack of flexibility in rate setting, and prohibition of joint use of common track between two carriers, leading to duplication of service, a lack of innovation, loss of market share, and higher costs.

With the first significant regulatory changes in 1979, railroads experienced greater pricing flexibility and an easing of restrictions on mergers and abandonments.

Previous Studies Give Conflicting Views of Deregulation's Impact on Earnings

In general, studies have found positive impacts of deregulation on the rail industry. Most cite:

- **Reduced rates** due to a direct effect of deregulation, and due to increased shipment sizes, length of haul, and system density
- **Greater productivity,** resulting from abandonment of unprofitable, light-density lines, increased pricing flexibility, and eased merger restrictions
- **Greater profitability,** with one study showing the return on investment rising more than 2% as a result deregulation

In terms of deregulation's impact on *labor*, however, previous studies have given conflicting views. One study, for example, found increased wage premiums for railroad workers relative to similar workers in other industries as a result of deregulation, while another showed a decline in weekly earnings as a result of deregulation. Such inconsistencies require further analysis, as well as a closer look at the relative impacts of both increased productivity and increased competition on railroad earnings in general.

Study Shows Decreased Employment …

Using an employment function, our study estimated employment for railroad transportation workers, maintenance of way workers, and maintenance of equipment workers. Results suggest that rail employment, which had been declining over time, realized a large decline from deregulation, and has declined at a faster rate since deregulation:

- Employment of maintenance of way workers, for example, declined by 1.7% per year before deregulation, dropped 13.9% from deregulation, and has since declined at a rate of 3.7% per year. Results suggest overall that employment of maintenance of way workers was 33.1% lower in 1992 than it would have been without deregulation.
- Maintenance of equipment workers saw employment 41.4% lower in 1992 than it would have been without deregulation.
- Employment of transportation workers was more than 42% lower in 1992 than it would have been in the absence of deregulation.

This increased rate of decline of rail employment following deregulation was the result of a number of factors. In estimating the direct and indirect effects of deregulation on unionized railroad employment, it was shown that:

- Reduced obligation of railroads to serve unprofitable markets had a large negative impact on unionized railroad employment
- Increasing train size and decreased truck rates resulting from deregulation had large negative impacts on unionized railroad employment
- Increasing industry concentration and increased industry output had positive impacts on unionized railroad employment

… And Study Shows Increased Labor Productivity, Earnings and Wage Premiums

Prior to deregulation, railroad labor experienced a negative trend in weekly earnings — one which turned into a statistically positive trend following deregulation:

- In estimating weekly earnings for railroad transport operators, the study suggested that by 1991, weekly earnings were more than 26% higher than they would have been without deregulation.
- For engineers and conductors, the impact was even larger, with workers in these occupations experiencing weekly earnings nearly 49% higher in 1991 than they would have been in the absence of deregulation.
- In the case of brakemen and switchmen, there are no significant impacts.
- The widely varying impact of deregulation on earnings across occupations suggests that deregulation has had a broader impact than through its effect on union bargaining power and rent sharing.
- Yearly wage equations also confirmed that wage premiums for railroad operating workers over similar workers in manufacturing increased from an average of 32% for 1973-1979 to nearly 41% for 1980-1991. Moreover, wage premiums were more than 60 percentage points higher in 1991 than they would have been without deregulation.

In summary, earnings for railroad operating workers were in gradual decline prior to deregulation, then began a gradual increase after deregulation. Large productivity gains resulting from reduced obligations to serve unprofitable routes, increased pricing flexibility allowing greater shipment size and distance, and from eased merger restrictions have created large gains in weekly earnings that have exceeded any reductions that may have been felt from increasing competitive pressures.

Conclusion

Recent elimination of the Interstate Commerce Commission, coupled with Congress' stated intent to further remove regulations it perceives to be unnecessary and burdensome, and the Surface Transportation Board's efforts to streamline regulations, may signal additional regulatory changes for railroads in the not-so-distant future. By understanding the impacts deregulation has already had on the largely-unionized railroad labor force, regulatory decision-makers may be able to more accurately predict the impact of future changes on rail labor.

A copy of the full report, "The Impacts of Deregulation on Railroad Labor" (MPC Report No. 97-78), is available from the Upper Great Plains Transportation Institute. Contact: John Bitzan (701) 231-8949.