Don't ignore that powerful old invisible hand

In case any of us needed reminding of the laws of supply and demand, the wild stock market gyrations are an immediate example. But transportation has also seen a bumpy ride.

Certainly one of the most obvious examples has been the recent spike in oil prices. Crude oil hit prices not seen since Iraq's 1990 invasion of Kuwait.

Now the production curbs implemented by the Organization of Petroleum Exporting Countries last year have been rescinded.

OPEC's decision has a sound economic basis. While higher crude prices have some short-term economic benefit, they also can create problems. Imposition of production curbs is tough enough, but monitoring compliance is almost impossible.

OPEC has seen the market respond in adverse ways when prices rise above certain levels. Consumer behavior can be changed as conservation and other preservation methods become more attractive. Other competitors can also enter the market. For that reason, OPEC is trying gently to bring down prices.

Basic rules of supply and demand have also been demonstrated recently in the job market. In certain industries, trucking for example, companies have had to significantly improve wages, benefits and working conditions to provide service. (Some motor carriers have even accelerated tractor purchases.)

Many trucking companies believe they could have handled much more volume with their existing assets if only they had more drivers.

And often, it appears companies that could be attracting new drivers are just stealing them from their competitors. The market is brutal.

 Attempted manipulation of supply and demand is not always obvious. For example, American and United Airlines are advertising new seating options that provide more leg room.

Could this be a case of carriers listening to their customers' complaints about poor service? Perhaps. But it could also be an attempt to raise prices further by reducing the supply of available seats.

Many airlines are receiving an influx of new planes just as demand growth seems to be slowing. Now airlines could ground some planes and save on direct operating expense (fuel, labor and maintenance), but that would hinder their plans to grow market share.

The issue of supply and demand for airlines extends beyond passengers. Their big concern is airport facilities. In many cases supply of capacity is constrained. This allows the carriers in possession to generate excessive profit from the monopoly license. Two of the most effective restraints are gates and landing slots.

Gates are often leased to a carrier, which may not use them but nonetheless refuses to lease to competitors. Landing slots limit the number of flights at the major airports. Both of these prevent competition between existing carriers and new entrants. The latest aviation bill in Congress seeks to remedy both of these shortcomings.

The ocean shipping industry is always an interesting reflection of supply and demand, the Trans-Pacific trade being the most extreme example.

A surge in import demand from Asia allowed significant rate increases to take effect in the inbound trade lanes. Meanwhile, the inability of Asia to afford U.S. imports caused the outbound market to plummet. Shippers were literally offered free shipping (just pay the handling charges) to load exports.

The imbalanced trade caused the business to become more profitable. And now some carriers are suddenly enthusiastic about future prospects. Although trade growth looks likely to continue, the specter of overcapacity looms large.

In the middle and late 1990s, worldwide container-ship capacity almost doubled. Recently, many industry leaders expressed hope that the building binge would cease. But last year, orders for new vessels sharply increased — apparently an enthusiastic response to the first industry good news in three years.

Although worldwide container traffic is expected to continue to grow at 7% to 8% annually, this is much less than the anticipated growth of capacity. As these new vessels are delivered, there is much anticipation of a new round of ruinous rate wars.

You could not discuss supply and demand without including the railroads, where there seem to be slightly different factors at play.

Most railroads have seen their excess capacity diminish. As capacity became scarcer, rates became higher. Many customers have no viable transportation alternatives and are seeking political redress.

One railroad, CSX, after a flurry of rate-cutting following its acquisition of a big part of Conrail, seems to be questioning their actions. CEO John Snow of CSX even publicly mused on the fact that since rail transportation had become a seller's market, it must be possible to raise rates — although this seems to ignore the existence of long-term, fixed-rate contracts.

Into all of this comes the rapid development of business-to-business exchanges for the purchase and sale of transportation services. While these may not change prices in and of themselves, they certainly are changing the rules. Better information is available, making market participants even more adept at tracking market dynamics.

Adam Smith's invisible hand always plays a role in every market. Transportation companies ignore it at their peril.

Theodore Prince writes a weekly column for The Journal of Commerce. He can be reached at Ted.Prince@Translogics.com