



CN's Aquisition of the EJ&E: A Political Economy Analysis

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Is there really a political economy of trains?

- Policy, including transportation policy, is the outcome of a contest between competing interests
- As a result, only part of the policy-making process is about cost-benefit analyses and the merits
- Political economy is about the other part

CN and the EJ&E

- CN has proposed to acquire the EJ&E
 - Reroute trains around Chicago
- Positive Externalities
 - Regional and national economic, environmental, and security benefits
 - Reduced rail traffic in Chicago neighborhoods (including ours) and some suburbs
- Negative Externalities
 - Increased rail traffic in some suburbs
- Resulting in a politically charged regulatory process with uncertain outcome

A thought experiment: 2 scenarios

- Suppose railroads own the right to run as many trains as they want
- Suppose people of Barrington have the right not to have trains run if they choose not to
- In the absence of government intervention, would the number of trains running through Barrington be different under two scenarios?

We are from the University of Chicago,
shouldn't the market solve this?

Coase Theorem: In the absence of transaction costs, if property rights are well defined, then if there are two competing interests, even in the presence of negative externalities

- Outcomes will be efficient
- The ultimate outcome is invariant to the initial assignment of property rights

The Logic of the Coase Theorem

- Efficiency
 - If property rights well defined, one party can compensate the other
- Invariance
 - Through efficient bargaining the more profitable activity should always occur
- Suppose net benefits
 - If CN own rights: Then run trains
 - If residents own rights: CN compensates them
- Suppose net loses
 - If CN owns rights: Residents pay CN not to run (or buy EJ&E)
 - If Residents own rights: No trains run

Why Might the Coase Theorem Fail

- Unclear property rights
- Large transaction costs
- More than two parties
- Credibility/Commitment problems
- An empirical example of failure:
 - <http://nissan.com/>
- When Coase Theorem fails, market fails to solve problem
 - Public policy should try to approximate Coasian outcome

Principles of good policymaking

- The social good is hard to define
- One uncontroversial notion is Pareto Efficiency
 - Policy A Pareto Dominates Policy B if A makes at least one person better off and no one worse off
- Hard to find such policies, since all policies seem to have winners and losers
- If a policy is positive *on net* we can create Pareto Efficiency (Hicks-Kaldor)
 - Adopting good policies and compensating the losers

Is the CN Acquisition Hicks-Kaldor Efficient?

- Winners (in order of directness)
 - Owners of CN and the EJ&E
 - 1.25 million residents of city neighborhoods
 - 1.2 million suburban residents with reduced traffic
 - The region and nation
- Losers
 - 900,000 suburban residents with increased traffic
- So why isn't easy to get approval with compensation?

Politics of Regulatory Approval

- In principle non-elected boards (such as STB) are insulated from politics
- In practice, not so
 - Career ambitions
 - Various forms of pressure
- Who can effectively exert pressure
 - Those who are mobilized
 - Those with clout

Comparing the Winners and Losers: Clout

- CN
 - Large corporation with lobbying presence
 - Not U.S. owned
- City Residents that Benefit
 - Median income: \$46,000
 - Demographics: 70% minority
- Suburban Residents that are Hurt
 - Median income: \$76,000
 - Demographics: 67% white

Comparing the Winners and Losers: Mobilization

- Suburban opponents more mobilized.
Why?
 - **Opportunity Costs:** South Side city residents have bigger issues to petition their government on, suburbs may not
 - **Prospect Theory:** People tend to be more motivated by losses than by gains
 - **Size of Effects:** We haven't quantified the per person gains and losses, but draft EIS makes them look roughly equal

Evidence of undue influence from opponents

- 7 “scoping meetings” to assess costs and benefits
 - 6 in suburbs
- 39 poster locations announcing those meetings
 - 38 in suburbs
- 22 minority outreach meetings
 - 21 in suburbs
- 8 meetings to take comments on draft EIS
 - 7 in suburbs
- State-level leadership has not supported the plan

What's the likely outcome

- If you looked at this *ex ante* you'd think the combination of corporate and city interests would win
- CN was late to understanding the politics
- Suburbs are highly mobilized
 - Congressional delegation has proposed legislation
- The outcome is highly uncertain
 - No guarantee good policy will be good politics