Politics and Regulation: The Case of Public Transit*

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Abstract

Political economy has long acknowledged the role played by politics in policy decisions. The purpose of this paper is to analyze the impact of politics on regulatory contracts in public transportation. Public transportation is regulated at the municipality level and hence could be influenced by the political composition of the City Council. Data from 1985 to 1993 for bus transit in France show that the price charged to consumers is significantly different between leftist and rightist cities, the former being lower. The 1989 election has shown the emergence of a new party acting as an interest group with environmental interests. Its influence on public transit has been dramatic irrespective of the majority showing a significant lower price for cities with environmentalists in their City Council.

While adopting an incentive regulation framework, we take into account such political factors by considering a nonbenevolent regulator. The basic idea is to consider a weight for the consumer surplus as a function of political factors. Relying on a structural model, we use method of moments to estimate the parameters of the demand and cost functions as well as the shadow cost of public funds, the density of firms' types and the consumer surplus weight for every city. Though the left wing and the environmentalists would like to decrease the bus fare, they are constrained by the City’s financial situation as expressed by the amount of debt per capita. The empirical results show that the composition of the City Council affects the regulatory contracts. As expected, the level of debt per capita restrains the City in their redistributive policy.

Primary Field: Applied Industrial Organization
Key words: Regulation, Contracts, Public Transportation, Political Economy.

JEL classification: L51, L92, D82, C50, R48