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Surface Transportation Board

Docket No. EP 711.1

Reciprocal Switching

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Dear Honorable Board Members,

We would like to submit a comment on the Surface Transportation Board's proposed regulation on "reciprocal switching." This proposed regulation, which dates back to 2016, would require railroads to "unbundle" their transportation services and provide competitors with access to their infrastructure, at what will effectively be regulator-determined prices and service requirements. Others have pointed out potential problems with this proposed regulation, including discouraging [private sector investment](#) and increasing [operational problems](#). In this comment, however, we will focus on the broader question of why forced unbundling of railroad transportation services is precisely the wrong regulatory strategy for today's "Supply Chain Economy," leading to the potential worsening of supply chain disruptions and increase in inflation.

To understand why a 2016-vintage regulatory approach is totally wrong for the 2022 economy, we must first consider the underlying economics of supply chains. A supply chain consists of a flow of goods, of course, from producers to buyers and consumers, via transportation links such as railroads, container ships, airlines and truckers, and intermediaries such as importers and wholesalers. But equally important is the flow of data which allows all this production and movement to be coordinated.

As I note in a forthcoming article in the Winter 2022 issue of *The International Economy*, it is better to think of a supply chain as a “supply-and-data chain.” Today’s domestic and global economies are built around these “supply-and-data chains.” A retailer like [Walmart](#) uses its knowledge of expected U.S. consumer demand to place orders with factories around the world months ahead of when the goods are needed, and then coordinates the movements of these goods to its far-flung stores. At every point along the way the goal is to use data to reduce costs and ensure a smooth flow of goods.

This “Supply Chain Economy” is very different than the classic picture of an economy consisting of a series of unbundled arms-length transactions. In an economy with forced unbundling, factories would have to commit themselves to production runs without knowing if the demand existed, and without knowing if the transportation capacity was available.

In a supply chain economy, companies compete on the basis of whom can best use data to organize production and logistics across the global economy, lowering costs and increasing reliability. The key is to take a big picture view across a wide range of markets, rather than focusing on competition in individual markets.

From this perspective, forced “reciprocal switching” would divert resources away from the optimization of supply chains. Railroads would have to give a high priority to moving goods in a way that met the reciprocal switching requirements, rather than lowering costs and speeding goods to their ultimate customers. The result would be more supply chain disruptions, and higher inflation. That’s not an outcome that anyone wants right now.



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