

Deeper Dive on Theories of Regulation

A focus on Three Papers

- ▶ Posner, Richard A. "Theories of Economic Regulation." The Bell Journal of Economics and Management Science, vol. 5, no. 2, 1974, pp. 335–358. JSTOR, <https://www-jstor-org.proxy.lib.pdx.edu/stable/3003113>.
- ▶ Stigler, George J. "The Theory of Economic Regulation." The Bell Journal of Economics and Management Science, vol. 2, no. 1, 1971, pp. 3–21 (<https://www-jstor-org.proxy.lib.pdx.edu/stable/3003160>)
- ▶ Peltzman, Sam. "Toward a more general theory of regulation." The Journal of Law and Economics 19.2 (1976): 211–240. <https://www.jstor.org/stable/725163>

Overview

- ▶ Posner(1974)
 - ▶ Verbal description of the institutions that references Stigler (1971)
 - ▶ Good for the non-technical audience
- ▶ Stigler (1971)
 - ▶ Simple empirics on why NTPT does not work
- ▶ Peltzman (1976)
 - ▶ Stigler/Peltzman – they joined forces
 - ▶ Gives regulators preferences

- ▶ Writing this after the Stigler Model came out in 71. It is a companion to the empirical paper you have.
- ▶ Very focused on the institutions
- ▶ Quirky.
- ▶ Implicitly models
 - ▶ Goods production and markets
 - ▶ Political production and markets
 - ▶ Regulatory production and markets
- ▶ Competing and/or colluding in all three to achieve objectives.

Nail in the PTNT Coffin

“...[regulation] is not positively correlate with the presence of external economies or diseconomies or with monopolistic market structure.”

And that is mostly true. . .

Implicit Model (in Words)

- ▶ Profits are higher when firms in an industry that colludes.
 - ▶ Some industry characteristics make it hard to collude in goods market. (Large number of firms)
 - ▶ But easy to collude in the regulatory market.
- ▶ If collusion is hard, the industry requests regulation from legislatures.
- ▶ Legislatures start the regulation and then delegate the authority
- ▶ Courts are an alternative to regulation.

The Public Purpose Hypothesis is then modified

Regulatory agencies are started with the public in mind, but they are mismanged or corrupted.

Killing Strawman Part 1

scheme. The railroads supported the enactment of the first Interstate Commerce Act, which was designed to prevent railroads from practicing price discrimination, because discrimination was undermining the railroads' cartels. American Telephone and Telegraph pressed for state regulation of telephone service because it wanted to end competition among telephone companies. Truckers and airlines supported the extension of common carrier regulation to their industries because they considered unregulated competition "excessive." Sometimes the regulatory statute itself reveals an unmistakable purpose of altering the operation of markets in directions inexplicable on public interest grounds, as in the reference in the ICC's statutory mandate to the desirability of maintaining "balance" among competing modes of transportation.⁵ None of this

Figure 1:

Killing Strawman Part 2

- ▶ Legislation is frequently suboptimal or contradictory.
 - ▶ Favorite example, full employment and low inflation.
- ▶ The legislative budget process can be thought of as a market
 - ▶ There is some discipline

It is the fault of the legislature

Posner says

- ▶ Legislatures have decreasing economies of scale.
- ▶ The bigger they are, the harder to get things done.

Jamie says

- ▶ Clearly, Posner is unclear on the committee system.