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**Studies in  
Public Regulation**  
edited by  
Gary Fromm

**Studies in Public Regulation**  
Fromm, editor



“Regulation” has long been a venomous term in the conservative vocabulary, and “deregulation” (of the airlines and the trucking industry) has recently acquired a benign definition in the liberal lexicon. Across the political spectrum there has been growing distrust of regulators, their motives, and their methods. The naive assumption that regulation necessarily operates in the public interest has been replaced by a healthy skepticism in some quarters and by a facile (and often self-serving) cynicism in others. And yet the public goals of regulation are still widely regarded as desirable. The proper alternative to poor regulatory performance may not always be deregulation; finer-tuned legislation and better implementation might promote the common good more effectively. The regulatory agencies need to be regulated and made self-regulating, rather than simply abolished.

Such general issues and case reports on specific industries, agencies, and policies are examined in *Studies in Public Regulation*. The book is based on papers presented at a conference jointly sponsored by the National Bureau of Economic Research and the National Science Foundation, and its contributors are economists and public policy specialists of national reputation.

The editor, Gary Fromm, is President of Investment Intelligence Systems Corporation in Washington, D.C. and a former Director of Research of the National Bureau of Economic Research. The book is the fourth volume in the series *Regulation of Economic Activity*, edited by Richard Schmalensee, Professor of Management at MIT's Sloan School.

## **Studies in Public Regulation**

**MIT Press Series on the Regulation of Economic Activity**

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- 4 *Studies in Public Regulation*, Gary Fromm, editor, 1981

**Studies in Public Regulation**

Edited by Gary Fromm

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Since this volume is a record of conference proceedings, it has been exempted from the rules governing critical review of manuscripts by the Board of Directors of the National Bureau (resolution adopted 6 July 1948, as revised 21 November 1949 and 20 April 1968).





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## Foreword

Government regulation of economic activity in the United States has grown dramatically in this century, radically transforming government-business relations. Economic regulation of prices and conditions of service was first applied to transportation and public utilities, and has recently been extended to energy, health care, and other sectors. In the 1970s, explosive growth occurred in social regulation focusing on workplace safety, environmental preservation, consumer protection, and related goals. The expansion of regulation has not proceeded in silence. Critics have argued that many regulatory programs produce negative net benefits, while regulation's defenders have pointed to the sound rationales for and potential gains from many of the same programs.

The purpose of the MIT Press Series on Regulation of Economic Activity is to inform the ongoing debate on regulatory policy by making significant and relevant research available to scholars and decisionmakers. The books in this series will present new insights into individual agencies, programs, and regulated sectors, as well as the important economic, political, and administrative aspects of the regulatory process that cut across these boundaries.

The individual essays in this collection are notable for the exceptionally high quality of analysis and for their concern with matters of importance for public policy. Several have already become standard references. Moreover, the whole is greater than the sum of its parts; by skillfully illuminating different aspects of the economics of regulation, these essays together give us new insights about the regulatory process in general, as well as new awareness of the strengths and weaknesses of traditional methods of analyzing that process and its effects.

Richard Schmalensee



## Preface

The essays in this volume were presented at a Conference on Public Regulation sponsored by the National Bureau of Economic Research (NBER) under a grant awarded by the National Science Foundation through the Research Applied to National Needs program. The purpose of the conference was to advance the theory and practice of regulation.

Papers to be presented were selected in an open competition. A call was issued and more than 150 abstracts were received. These were reviewed by a steering committee of experts on public regulation. The committee discussed the merits of the leading candidates so as to choose papers that would make significant contributions toward formulating, analyzing, and evaluating regulatory policies. After the conference the committee critiqued the papers presented, offered suggestions to the authors, and decided which papers were to be included in the proceedings volume.

Much is owed to the committee for the high quality of these essays. The results from some are applicable immediately to regulatory issues, while others suggest promising paths for additional research. Members of the committee were Gary Fromm (chairman), of SRI International and the National Bureau of Economic Research; William Baumol, of Princeton University; William Baxter, of Stanford University; Peter Bloch, of the American Bar Association; Darius Gaskins, of the Interstate Commerce Commission; Michael Gort, of the State University of New York at Buffalo; George Hay, of Cornell University; Paul Joskow, of the Massachusetts Institute of Technology; Marvin Kostors, of the American Enterprise Institute; Bruce Smith, of Teknek, Inc.; Harvey McMains, of the University of Texas; Sam Peltzman, of the University of Chicago; Laurence Rosenberg, of the National Science Foundation; Frederick M. Scherer, of Northwestern University; Michael Spence, of Harvard University; Harry Trebing, of Michigan State University; and Leonard Weiss, of the University of Wisconsin.

Thanks especially are due to Bruce Smith, formerly of the National Science Foundation, and to Laurence Rosenberg, who enthusiastically supported the project and helped arrange for its funding. Readers of this volume, too, benefit from the able editing of the papers by Sarah J. Gaston and by the staff of The MIT Press.

The National Bureau of Economic Research was organized in 1920 to consider, in an objective and impartial manner, issues bearing on economic problems. The NBER concentrates on topics of national interest that are susceptible to scientific treatment.

Gary Fromm

## **Studies in Public Regulation**



