The Political Economy of Regulation

Arlington Founders Hall 322
Tuesdays at 4:30 pm - 7:00 pm
Room ARLFH 322

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Office Hours: I am normally available in my office at Arlington between 6.00 pm and 7.15 pm on Mondays and between 2.00 pm and 4.15 pm on Tuesdays. I am always ready to help with anything by telephone, by e-mail or at other times by appointment at Arlington.

PLEASE inform me at once of any change in your GMU e-mail address since I will use that extensively for communications.

BACKGROUND

Regulation takes many forms, is enacted and enforced by many agencies, and studied in many ways. The focus of this course is on the political economy aspects of regulation, although it inevitably touches upon legal, political, social, and technical aspects. It also covers not just the diverse reasons for regulation and the forms regulations it may take, but also, beside other things, considers enforced, who is impacted and how, and ways of evaluating whether regulations meet their stated objectives.

The course has an underlying economics focus in that the attention is on the ways that “markets” (very broadly defined) can be regulated. This brings up immediate questions concerning such things as ensuring efficiency while at the same time paying attention to equity and protection, but is also considers matters of social regulation including regulating for environmental protection, consumer protection, and labor protection. It is mainly focused on micro-issues, but also brings in macro-subjects such a banking and financial regulating. Although the course is largely US orientated, apposite examples and cases from other countries or international regulatory authorities will also be drawn upon.

THE COURSE

Course Content:
A part of the course is concerned with straightforward regulation theory and how this is important for policy formulation. The course also provides considerable background material, in the form of case studies, that highlight the relevance way regulations have been justified and operationalized, together with their impacts. The case study approach also helps individuals to become familiar with the available data in a number of sectors and how this can be used in assisting more efficient regulatory policy to be formulated, enforced and monitored.

Texts:
There is no single text for the course. Good, classic books to look at in the Library include:

- Christopher Foster (1992) Privatization, Public Ownership and the Regulation of Natural Monopoly, Blackwell. **A largely UK oriented book on regulating monopoly power.**

There are some articles and paper listed to be read (not all of them by everyone!), and these will be added to about a month before the course begins. Most should be available as “e-journals” on the GMU system. I will provide copies of other material electronically. There may be some up-dating of material as the source progresses. Also I often suggest some current Web site for more popular pieces of interest. The list is intended to provide material that all should read but also some that will help with individual course work.

There is logic to the sequence of themes to be covered, but I do like to bring in one or two “guest” speakers who are practicing in the field of regulation. They will be fitted in according to their availability; in the past students have found contributions of this type very valuable. I have limited these to economists in the public sector on the basis that the economics involved in logistics will largely be covered in other courses.

**Pedagogy:**
Instruction will be in part by the case method, which requires everyone to come to each class frilly prepared to discuss the issues raised by the assigned reading material. The quality of learning depends in large measure on everyone’s preparation for and participation in the case discussions.

**Examinations:** There will be one mid-term and one final examination.

**Grading:**
Grades will depend on (a) contributions to class discussion, presentations, (each student will make a presentation on particular aspect of regulation), joint mini projects (30%), (b) a mid-term examination(25%) and the final (45%) examinations. In addition there will be material handed out (with answers supplied a week or so later) that is optional to complete and will not be assessed for grading purposes. The aim is that YOU have a reasonable idea of what you are learning.

**Note**
Should for any reason a session be cancelled (weather, illness, breakdown of physical plant, generic SPP special lectures of particular relevance to the class, etc.), I build in a little slack. It is basically seen as a make-up allowance. If there are no cancellations then I will add a little more material and use that date for a class — advanced notice will be given. Experience suggests that normally one class has to be cancelled for one reason or another. Also, if an important policy issue comes to the fore the final week’s class gives scope for building in material on this — again reading will be indicated later.

**THEME 1 (January 22) Introduction to Regulation**
Regulation is a very broad term, and could embrace everything that affects our behavior. Here we narrow this down and focus on matters that are more normally called “regulation”.

2
THEME 2 (January 29) Reasons for Regulation
There are a diverse range of reasons why governments regulate. In the case of industries these may include; containing monopoly power, regulation excessive competition, protection of consumers, maintaining safety standards, limiting its monopsony power over labor, to protect the environment, and to meet social as well as commercial objectives. Consumer behavior can be regulated to protect individuals from attack or exploitation, to provide information, to improve the quality of the labor force, and to protect the weak.


THEME 3 (February 5) Tools of Regulation
Regulation can, in broad terms involve controls over the “quality” of a product, service, or industry, or the quantity which involves physical controls, pricing, and investment. There are numerous tools by with these regulations can be administered. There is also the matter of who administers the regulation, and the role of “self-regulation.” This class looks at some of these instruments and the theories espoused about their usefulness, together with an introductory commentary about how effective they have been in achieving their stated objectives.


THEME 4 (February 12) Institutional Structures
Regulations require both government to set them and modify them over time, and governance the involves the ways regulations are interpreted and enforced. This poses challenges of the relevant geographical coverage, mechanisms for instigate the legal framework for introducing, monitoring, and enforcing regulations. In addition to formal regulation by government there also, for a variety of reasons, various types of self-regulation (for example by the professions or sports). These bodies require legal frameworks in which to function.

THEME 5 (February 19) Forces for Deregulation
There are periodic swings in the intensity to which


THEME 6 (February 26) Techniques for Assessing the Effects of Regulation
Ex post analysis of regulations had until about 40 years ago been seriously neglected – the authorities and regulations were hardly stimulated to undertake the work.


THEME 7 (March 5), Public Ownership, Private Ownership, Public-Private Partnerships.
The most extreme form of government regulation is state ownership (nationalization). Here we look at the reasons why this takes places and the pros and cons various forms of regulation over ownership, including public-private partnerships.


SPRING BREAK (March 12 )

MID-TERM EXAMINATION (March 19)

THEME 7 (March 26) Environmental Regulation

THEME 8 (April 2) Regulating Urban Development
Town and urban planning has to some extent existed since the hunt-and-gather societies with their nomadic life styles were replaced by agrarian societies which have in turn been replaced by industrial societies. Put simply, the proximity and interactions that go with urbanization requires formal and informal regulations for them to be sustainable.

THEME 9 (April 9) Financial Services Regulation


THEME 10 (April 16) Deregulation of the Airlines
Airlines were one of the first industries that was “deregulated”. This class focuses on the regulation and subsequent deregulation of the industry looking mainly at the US case but also bringing in some international material. It also ties in with the regulation of complementary industries such as airports and air traffic control.

THEME 11 (April 23) The Health Markets

THEME 13 (April 30) Telecommunications
As with many sectors, there are networks of telecommunication infrastructure together with intermediate suppliers of services over these networks that provide services to final consumers. The Internet is a classic example if these two features but they extend back to the telegraph and earlier systems of communication such as postal services (roads and mail coaches). The issue is really how best to provide these services when there are clear economies of scale in infrastructure provisions but far fewer in the intermediate supplier industries. There are also matters of public services obligations and methods of financing it.

**FINAL EXAMINATION (May 7)**

**ASSESSMENT**

Assessment will involve a mid-term (20%), a final examination (40%), the preparation of a short review paper/presentation (20%), periodic short “tests” (5%), and a “debate” (15%). (There may be some modification to this, depending on enrollment numbers.). In addition, I give out a mock mid-term about two weeks before the event so that you know what you are in for, and I am happy to offer comments individually on your answers if you feel that would help you, but there is no compulsion about this. Equally some small tests will be given out periodically, these can be done or not (they are not graded) but I will give out answers about a week later. The aim is that you know what you are learning, rather than what you think you are learning!

**NOTES:**

Should for any reason a session be cancelled (weather, illness, breakdown of physical plant, etc) I will send round an email that day, I build in a little slack in terms of the substance for each component. If there are no cancellations then I will add a little more material into the later components – advanced notice will be given. Experience suggests that often one class has to be cancelled for one reason or another – usually weather but burst water-pipes and earthquakes are also sometimes an issue!

**Academic Accommodation for a Disability**

If you are a student with a disability and you need academic accommodations, please see me and contact the Disability Resource Center (DRC) at 703-993-2474. All academic accommodations must be arranged through the DRC.

**Policy on Plagiarism**

The profession of scholarship and the intellectual life of a university as well as the field of public policy inquiry depend fundamentally on a foundation of trust. Thus any act of plagiarism strikes at the heart of the meaning of the university and the purpose of the Schar School. It constitutes a serious breach of professional ethics and it is unacceptable.

Plagiarism is the use of another’s words or ideas presented as one’s own. It includes, among other things, the use of specific words, ideas, or frameworks that are the product of another’s work. Honesty and thoroughness in citing sources is essential to professional accountability and personal responsibility. Appropriate citation is necessary so that arguments, evidence, and claims can be critically examined.

Plagiarism is wrong because of the injustice it does to the person whose ideas are stolen. But it is also wrong because it constitutes lying to one’s professional colleagues. From a prudential perspective, it is shortsighted and self-defeating, and it can ruin a professional career.
The faculty of the Schar School takes plagiarism seriously and has adopted a zero tolerance policy. Any plagiarized assignment will receive an automatic grade of “F.” This may lead to failure for the course, resulting in dismissal from the University. This dismissal will be noted on the student’s transcript. For foreign students who are on a university-sponsored visa (e.g., F-1, J-1 or J-2), dismissal may also result in the revocation of their visa.

To help enforce the Schar School policy on plagiarism, all written work submitted in partial fulfillment of course or degree requirements must be available in electronic form so that it can be compared with electronic databases, as well as submitted to commercial services to which the School subscribes. Faculty may at any time submit student’s work without prior permission from the student. Individual instructors may require that written work be submitted in electronic as well as printed form. The Schar School’s policy on plagiarism is supplementary to the George Mason University Honor Code; it is not intended to replace it or substitute for it. (http://www.gmu.edu/facstaff/handbook/aD.html)