

PUBLIC AFFAIRS 7535

Markets or Mandates: The Political Economy of Regulation, Deregulation, and Reregulation

Professor Douglas N. Jones
Spring Semester, 2016
3 Credits, Thursdays, 2:35- 5:10pm
Page Hall, Rm. 240

General Statement:

The *economic* regulation of industries and business activities has been a major governmental practice in the U.S. for well over a century. Two service sectors of great importance to the economy that historically have been a focus of regulation are the public utilities (electricity, natural gas, telecommunications, and water) and financial institutions. The main object of such oversight is consumer protection, broadly conceived, and looking after the public interest: the main structures employed are multi-member regulatory commissions (e.g., Federal Energy Regulatory Commission, Federal Communications Commission, Securities Exchange Commission) or single-administrator agencies (e.g., Treasury Department, Environmental Protection Agency). The last thirty years, however, have seen a reexamination of how best to achieve these goals- specifically when and where to employ various market competition mechanisms to replace direct intervention and continuous oversight. The result has been a paradigm shift to relaxed regulation (sometimes outright deregulation) and major reliance on markets in the utility (energy and telecommunications) and financial (banking and investment) fields. While trusting to market solutions in these sectors has provided some success stories, in other instances the results have been very uneven and occasionally (as we have learned) calamitous. This course examines the strengths and limitations of each approach – mandates and markets -- the occasion for and evolution of their policy development, and the prospects for regulation, deregulation, and reregulation in the U.S. economy. Also included in this same context are several sessions on antitrust regulation and environmental regulation and their current status as policy instruments.

Class Procedure and Grading:

The class will meet weekly, and lecture/discussion will be the format based on assigned readings. A course packet will be available for purchase (strongly urged); postings on Carmen will be used; and certain additional readings will be handed out during class. In some cases a guest speaker will join a class session. A seminar atmosphere will be encouraged, and substantial class participation will be expected. A mid-term exam and a final exam will be given. The weighting for grading purposes will be: mid-term= 35%; final= 50%; and class participation= 15%.

Course Materials:

A required reading packet should be purchased. As mentioned, some additional required reading will be provided electronically and some by hard copy handouts.

Session Topics: The Course in Outline

- Session #1 – Origin, Goals, and Concept of Commission Regulation
- #2 -Theories and Independence of Administrative Regulation
- #3 – Determining Rates and Returns
- #4 – Energy Regulation and Sector Performance
- #5- Telecommunications Regulation and Sector Performance
- #6- Appraisal of Utility Regulation/Deregulation: Successes, Failures, and In-Between
- #7 – Midterm Examination
- #8- Environmental Regulation (emphasis on energy sources)-- I
- #9 – Environmental Regulation -II
- #10 – Financial Regulation – I
- #11 – Financial Regulation -- II
- #12 -Antitrust Regulation – I
- #13 -Antitrust Regulation -- II
- #14- Reregulation: Whether, What, and How Much?

Session Assignments:

#1, January 14, --Charles F. Phillips, Jr., *The Regulation of Public Utilities*, 3rd ed., Public Utilities Reports, Inc. Arlington, Va., 1993, Ch. 1 and Ch. 2 (through p. 61) and Ch. 3 (handout).

#2, January 21,-- Phillips, Ch. 4 and Ch. 5. Douglas. N. Jones, "Agency Transformation and State Public Utility Commissions", *Utilities Policy*, 14, March 2006, pp. 8-13(handou0.

#3, January 28- Phillips, Ch. 8 (through p. 342) and Ch. 10 (through p. 452)

#4, February 4, --Alan Schriber and James Brock, "The Electricity Industry", Chapter 3 in *The Structure of American Industry*, James Brock, ed., Twelfth Edition, Prentice Hall, 2009, pp. 58- 97. Severin Borenstein, "Is the Future of Electricity Generation Really Distributed?", Energy Institute at Haas Blog (Berkeley), posted May 4, 2015, pp. 1-4 (handout). PaulL. Joskow, "Creating a Smarter U.S. Electricity

Grid", *Journal of Economic Perspectives*, Winter 2012, Vol. 26, No. 1, pp. 29-45 (Carmen).

#5, February 11, -- Genio Staranczak, "The Evolving Nature of Telecommunications Regulation", *NRRI Journal of Applied Regulation*, November 2004, pp. 25-35 (handout). Howard A. Shelanski, "Adjusting Regulation to Competition: Toward a New Model for U.S. Telecommunications Policy", *Yale Journal on Regulation*, Winter 2007, pp. 1-23 (Carmen).

#6, February 18,-- Harry M. Trebing, "A Critical Assessment of Electricity and Natural Gas Deregulation", *Journal of Economic Issues*, Vol. XLII, No. 2. June 2008, pp. 469-477 (Carmen). D. Jones and E. Rosenberg, "Utility Restructuring and Unnatural Acts," *Public Utility Fortnightly-Spark*, #50, February 2008 (handout). J. Pfeifenberger and A. Schumacher, "Restructuring Realities", *PUF*, July 2011, pp. 51-54 (handout). Kenneth W. Costello, "Not So Fast: Why the Electric Industry May Be Headed in the Wrong Direction", *Public Utilities Fortnightly*, March 2015, pp. 35-37, 58-59 (Carmen).

#7, February 25,-- Midterm Examination

#8, March 3, --A. Myrick Freeman III, "Environmental Policy Since Earth Day 1: What Have We Gained?" *Journal of Economic Perspectives*, Vol. 16, No. 1, Winter 2002, pp. 125-146 (Carmen). Gilbert Metcalf, "Market-based Policy Options to Control U.S. Greenhouse Gas Emissions," *Journal of Economic Perspectives*, Vol. 23, No.2, Spring 2009, pp. 5-27. (Carmen).

#9, March 10, --Lawrence H. Goulder, "Markets for Pollution Allowances: What Are the Lessons?", *Journal of Economic Perspectives*, Winter 2013, Vol. 27, No. 1, pp. 87 – 100 (Carmen). Richard Schmalensee and Robert Stavins, "The SO₂ Allowance Trading System: The Ironic History of a Grand Experiment", *JEP* (as above), pp. 103- 119 (Carmen).

#10, March 24, --Steven Pilloff, "The Banking Industry", Chapter 10 in *The Structure of American Industry*, James Brock, ed., Twelfth Edition, Prentice Hall, 2009, pp. 265- 293(Carmen). Frank Ulger, "Social Provisioning and Financial Regulation: An Institutional-Minskyian Agenda for Reform, *Journal of Economic Issues*, Vol. XLIX, No. 2, June 2015, pp. 493 -500 (Carmen).

#11, March 31,-- John Y. Campbell, H. Jackson, B. Madrian, and P. Tufano, "Consumer Financial Protection", *Journal of Economic Perspectives*, Winter 2011, Vol. 25, No. 1, pp. 91 – 109 (Carmen). Robert E. Prasch, "The Dodd-Frank Act: Financial Reform or Business as Usual?", *Journal of Economic Issues*, June 2012, pp.549-555(handou .

#12, April 7, --William G. Shepherd, *Public Policies Toward Business*, Chapter 5 -Antitrust Tasks and Tools, 8th edition, R.D. Irwin, 1991, pp. 116 -140 (Carmen).

#13, April 14, -- W. G. Shepherd (as above), Chapter 11 -Antitrust Appraised (handout). Dennis W. Carlton, "Does Antitrust Need to be Modernized?", *Journal of Economic Perspectives*, Summer 2007, Vol. 21, No.3, pp. 155 -175 (Carmen).

#14, April 21,-- Richard D. Cudahy, "Whither Deregulation: A Look at the Portents", *New York Survey of American Law*, Vol.58, No. 2, 2001, pp. 155 – 186 (Carmen). Douglas N. Jones, "Bottling the Genie", *Public Utilities Fortnightly*, April 2013, pp. 42-46 (handout). P. J. Cooper, *The War Against Regulation: From Jimmy Carter To George W. Bush*, "Reality Versus Mythology in the War Against Regulation", pp. 221-228 (handout). [clippings on recent congressional legislation of banks and investment firms as handouts].

Final Examination-TBA (over entire course)

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