Theories of economic regulation.

Theories of Economic Regulation

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A major challenge to social theory is to explain the pattern of government intervention in the market - what we may call "economic regulation." Properly defined, the term refers to taxes and subsidies of all sorts as well as to explicit legislative and administrative controls over rates, entry, and other facets of economic activity. Two main theories of economic regulation have been proposed. One is the "public interest" theory, bequeathed by a previous generation of economists to the present generation of lawyers. This theory holds that regulation is supplied in response to the demand of the public for the correction of inefficient or inequitable market practices. It has a number of deficiencies that we shall discuss. The second theory is the "capture" theory - a poor term but one that will do for now. Espoused by an odd mixture of welfare state liberals, Marxists, and free-market economists, this theory holds that regulation is supplied in response to the demands of interest groups struggling among themselves to maximize the incomes of their members. There are crucial differences among the capture theorists. I will argue that the economists' version of the "capture" theory is the most promising but shall also point out the significant weaknesses in both the theory and the empirical research that is alleged to support it.

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