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## REVIEWS

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### The New Interventionism

*Dan Corry, David Souter & Michael Waterson, Regulating Our Utilities, Institute for Public Policy Research, London, 1994*

*Michael Beesley (ed.), Regulating Utilities: The Way Forward, Institute of Economic Affairs, London, 1994*

*Reviewed by Charles Crouch*

THE recent return of regulation to respectability among economic rationalists in Australia is, on the face of it, puzzling. Those who championed deregulation throughout the 1980s are often now advocates of regulation across a number of industries, albeit in a different form and with different ends from before.

In Australia, regulation is not commonly discussed outside the world of specialists, largely because, until now, decisions made by professional industry regulators have had little appreciable impact on consumers. State-owned utilities have generally had their prices and terms of supply regulated directly by government, so that if prices rise (fall) it is government that gets the blame (praise). In the UK, by contrast, the various industry regulators make and are seen to make the key decisions that directly affect consumers, and so the nature and quality of the regulators are the subject of widespread discussion. The debate on regulation in the UK will probably be mirrored in Australia.

In *Regulating Our Utilities*, a publication of the leftish IPPR, Dan Corry identifies two strands to the regulatory debate. One strand consists of esoteric discussion by experts of the means of regulations. The other consists of general statements, usually condemnatory and not always well-informed, of the results of regulation. According to Corry, these strands rarely meet. The authors of *Regulating Our Utilities* seek to combine the two strands and so to develop a coherent policy framework for regulation, concentrating on why regulation is necessary as well as how it should be done.

There is a sensible and convincing discussion of the problems associated with regulation such as technological change and capture of the regulators. The apparent paradox of regulating for competition is comprehensively discussed. But David Souter is not obviously correct in claiming that 'politicians and regulators believe that market forces alone should deliver the widespread customer benefits they seek' (p.24). Such overstatements are the main problem with the book. Considerable space is devoted to establishing that regulation will be required on a long-term rather than temporary basis in some cases and that competition cannot be intro-

duced into all utilities — propositions that are uncontroversial in Australia. These points tend to be unconvincingly generalised: for example, the problems associated with introducing competition into difficult areas like water are cited to prove that competition cannot be introduced into any utility characterised by natural monopoly.

It is difficult to disagree with Corry's conclusion that:

Regulation is likely to grow in importance. Sensibly the Left has generally lost interest in ownership, wanting to see a predominantly market driven economy without arbitrary intervention *but operating in frameworks set by government and decided through the democratic process*. It is important therefore that thinking goes beyond short term efforts to stop excess job-loss, profits, prices and executive salaries — important though these are — and tries to think of the national interest in the medium term. (p.6; author's emphasis)

Yet it is disconcerting to read that 'regulating in the national interest' does not mean maximising competition in order to deliver the benefits of greater efficiency to customers. Rather, regulation is about delivering 'sectoral industrial policies' in energy, communications, transport and water. Corry et al. do not distinguish between the present need for pro-competitive regulation and the old, largely discredited, interference with market forces. Instead, having demolished the apparently widespread belief that continued regulation is unnecessary, they infer that as regulation is necessary, and central planning is regulation, central planning is therefore necessary. The authors' proposed 'industrial policy approach' aims to regulate industries in the collective interests of the stakeholders. They call on government to 'seek to establish a framework . . . which provides an overall balance between the interests of different stakeholders' (p.44), but miss the point that it is precisely the market's job is to resolve such competing demands and interests.

It is perhaps surprising in the light of the arguments presented in *Regulating Our Utilities* that the opponents of pro-market reform in Australia have not seized upon the general acceptance of new forms of economic regulation as strong evidence that the deregulatory reforms of the past decade have been a mistake. But readers of the book may well conclude that this argument will sooner or later be made, and this conclusion is perhaps the book's most valuable contribution.

*Regulating Utilities: The Way Forward*, published by the free-market IEA, superficially falls into Corry et al.'s category of esoteric discussion among experts of the best technical means of regulating a particular industry. Yet it is much the better written of the two books. It is actually a series of lectures, each dealing with a different industry, its problems and the best means of regulation. Although none of the lectures explicitly deals with Corry et al.'s 'key issue' of what regulation is for, there is a clear underlying assumption that regulation is about ensuring that benefits flow to the consumer as they would in a competitive market. So the technical discussion about the relative merits of 'rate of return' and 'CPI minus X' regulation,

asset valuation, efficiency gains and so on does not come at the expense of wider policy considerations. The discussion constantly relates the merits of various regulatory alternatives to the peculiar features of the industry under discussion and the ends that are to be served. To this extent, Corry's implicit complaint about pointy-headed technocrats imposing their technically elegant, ivory-tower solutions oblivious of the ends they are serving is not especially convincing. But Corry et al. are on firmer ground in bemoaning the lack of an informed *debate* about these ends. Since virtually all of the articles in *Regulating Utilities* take promotion of a competitive market as the purpose of regulation, the debate within its pages tends towards means rather than ends, and none of the contributors seriously analyses the question of what regulation is for.

Nevertheless, Stephen Littlechild does broach this issue in response to a proposition expressed very mildly by an earlier contributor, Dieter Helm, an Oxford energy economist. It is worth quoting as it raises issues that are by no means satisfactorily answered in *Regulating Our Utilities*:

He paints as quite distinct alternatives either a rather doctrinaire favouring of competition, or a realistic acceptance of the fact that governments will tend to intervene. . . Do you look for a system which, on the whole, tries to maximise the scope for markets and competition to take decisions and allocate resources, tending to limit the scope for government intervention? Or do you look for a system which tends to minimise the scope for markets and competition, and tends to maximise the scope for government?

The sort of suggestions that he has made elsewhere . . . obviously give government a very great deal of control indeed over the development of the industry. All the evidence is, I think, that government planning tends to lead to much higher costs and much larger-scale mistakes. (pp.113-14)

We may hope that the future of regulation in Australia follows Littlechild's rather than Corry's view. Based on developments to date, the danger of competition regulation being an effective Trojan horse for opponents of competitive markets is minimal. However, the same arguments will undoubtedly occur to Australian anti-market forces as have already been discovered by their British counterparts. Just as it has taken time for the anti-competition lobby to realise the implications of the Hilmer Report on competition policy, the fact that these arguments have not yet been made does not mean that they will not be made in the future.

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