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Book Reviews: *The Institutionalist Approach to Public Utility Regulation*, edited by Edythe S. Miller and Warren J. Samuels

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Book Reviews

Two reviews of The Institutionalist Approach to Public Utility Regulation, *edited by Edythe S. Miller and Warren J. Samuels*

East Lansing, Mich.: Michigan State University Press. 2002. ISBN: 0870136240, $62.95. 496 pages.

The Institutionalist Approach to Public Utility Regulation explains and assesses the intellectual and institutional infrastructure that has come to be recognized as Harry Trebing's contribution to regulatory economics, policy, and history. This infrastructure not only incorporates principles, history of ideas, and applicable theories but also includes an entourage of scholars who have been associated with Trebing in research and policy endeavors. In addition to providing scholarly work and policy involvement, Trebing, in partnership with his wife, Joyce, has provided organizational leadership. They have organized conferences, lectures, seminars, and research institutes and have facilitated policy interfacing with public utility commissioners and legislators. The book captures this history as a true adventure in the application of ideas. Trebing and his associates have been a force to be reckoned with in both academic and policy battlegrounds.

Trebing's professional associates are authors of the chapters. Their emphasis is not to praise Trebing but to explain regulatory theory in the context of the interplay of ideas, law, and technological change that made for the policy milieu in which Trebing participated and was influential. Their contributions are substantive, not personal. In addition to obtaining astute analysis of conceptual and methodological issues, the reader discovers the institutional drama of the political economy of regulatory history.

The collection will contribute to shifting both popular and professional thinking because it illustrates how to conduct analysis for democratic decision making with regard to regulation. It nourishes and encourages analysis; thus, it will be a technical reference in the libraries of public service commissions and law firms as well as a text for educating university students in economics, public policy, and law courses. Regulation topics are authoritatively addressed by scholars who are recognized public utility experts with applied policy experience. The topics cover the relevant range of issues—telecommunication rates, common costs, Coase theorem, critique of the deregulation revolution, social control of rail transport, public control versus regulation, low-income energy needs, institutional economic theory, economic theory, information theory, telecom regulation, cross-subsidization, vertical integration, transformation economics, the network-centric economy, common cost recovery, and the movement to concentration to mention some. An even technical standard is maintained from chapter to chapter that articulates the complexity of these issues in a manner that is easy to follow and stimulating to read. The book provides a significant framework for the understanding and analysis of and policy making for public utilities in the modern context of evolving technology, corporate governance, and deregulation.

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The recent collapses of firms such as WorldCom and Enron have whetted public and academic interest in accounts of why regulation policy in the United States has been changing and in interpretations of what these changes portend for the future. This volume, edited by Edythe Miller and Warren Samuels, sets out to answer these and other questions through a series of essays that examines markets that are "affected with the public interest."

The book serves a dual purpose: to present a series of related articles on public utilities regulation and to honor Harry Trebing, a long-time professor at Michigan State University, who through his teaching, writing, and professional work has championed well-designed regulatory proposals and has cautioned against hasty deregulation. The two editors, Trebing, and most of the seventeen contributors are well known to regular readers of this journal.

The editors organized the book into five parts: Part 1 consists of two papers under the heading "Economic History and Theory, Market Failure and Public Policy"; part 2 presents three papers under the heading "New Technology, the Network, and the Political Economy of Information"; part 3 has four papers under the heading "Costing and Pricing and the Public Interest"; part 4 has five papers under the heading "Market, Regulatory, and Deregulation Failure"; and part 5 has two papers under the heading "Regulation and the Clash of Economic Philosophies." In addition, the volume begins with a very good introductory essay co-authored by the volumes' editors and with a brief but informative discussion of Trebing's career by David Schwartz.

There are several essays in this volume that merit particular discussion. W. H. Melody couples a useful historical overview of public utilities regulation with a detailed examination of how and why telecommunications regulation has evolved. In addition, he explicitly shows how Trebing's work illuminates this rather convoluted history, a step that several of the authors in this collection do not attempt to make. William Shepherd also presents a very interesting article, one that he organizes around the "three cardinal errors of deregulation." These three errors are premature deregulation, inappropriate mergers and acquisitions, and anticompetitive strategic pricing policies by dominant firms. He asserts, "Deregulation should occur only after the old monopolist's share is below 40 percent, there are at least five comparable strong competitors, and entry by new rivals is clearly easy" (p. 426). Unlike some of the authors in this book, Shepard does not believe deregulation is necessarily bad, but he agrees that deregulation can be and often has been enacted inappropriately.

One of the key issues that public utilities regulation economists have to address is the problem of regulatory capture: what happens when the regulatory officials put in charge of monitoring key industries come to identify with these industries and place their interests ahead of the interests of the community? According to Melody, it is the "[s]ingle major criticism of U.S. utility regulatory agencies" (p. 68). This topic has received a great deal of attention, and several contributors discuss it in their essays. Samuels, though, in the volume's final article, asks an important question: if regulatory capture has been such a problem, why then have dominant firms been leading the charge for deregulation? He provides several answers to this question, though perhaps his most complete argument is that companies have embraced deregulation selectively and strategically: "Regulation continues in certain aspects of public utility company business, although not in others. The companies retain the protection that captured regulation provides while now having the freedom that regulation, even captured regulation, did not provide" (p. 479).

Despite the important questions this volume addresses, it has several problems. First, there is no index. Many of the authors present distinct and at times conflicting interpretations of key events and ideas, yet without an index it is difficult to research and evaluate these positions. Second, the editors need to make the overall goal clear: the back of the book states that this volume comprises "a series of articles that assess Trebing's theories on public utilities regulation while examining his towering contribution to the field." The problem is that five of the essays do not even mention Trebing, and of those that do, only a few systematically relate the story they are telling to Trebing's work. Third, some of the essays advance ideas that are either misleading or not well thought out. For example, Maurice Estabrooks presents a rather Panglossian view of technology and companies in his essay "Policy Challenges in the Age of the Internet." He asserts, "The purpose of mergers and acquisitions is to achieve economies of scale and scope" (p. 145). While such efficiencies may indeed emerge, any discussion of mergers that does not at least mention issues relating to market power in this context is incomplete. In another section, he writes, "E-markets are possibly the nearest we can come to the textbook definition of perfect markets" (p. 142). A 2002 article in the *Financial Times* by Alan Beattie examines the market for on-line books and finds that Amazon.com has much greater brand loyalty than BN.com (Barnes and Noble). Beattie's article shows that while E-markets may have the potential to become competitive, in actuality, many of these markets have already begun to resemble the highly imperfect markets that have given rise to the wide range of regulatory approaches discussed throughout this volume. Advances in high technology may not signal the end for regulation; in fact, they may call forth a need for new types of regulatory policy.

Despite these weaknesses, this is a volume that all interested in the current debates on regulation and deregulation will profit from reading.

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Reference

Beattie, Alan. "Can Perfect Markets Be Caught on the Net?" *Financial Times,* September 3, 2002.