Regulatory capture

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Regulatory capture is a term used to refer to situations in which a government regulatory agency created to act in the public interest instead acts in favor of the commercial or special interests that dominate in the industry or sector it is charged with regulating. Regulatory capture is a form of government failure, as it can act as an encouragement for large firms to produce negative externalities.

"The Commission is, or can be made, of great use to the railroads. It satisfies the popular clamor for a government supervision of the railroads, while at the same time that supervision is almost entirely nominal." - William H. H. Miller, US Attorney General, circa 1889, re the first US regulatory agency, the Interstate Commerce Commission.[1]

For public choice theorists, regulatory capture occurs because groups or individuals with a high-stakes interest in the outcome of policy or regulatory decisions can be expected to focus their resources and energies in attempting to gain the policy outcomes they prefer, while members of the public, each with only a tiny individual stake in the outcome, will ignore it altogether. When this imbalance of focused resources devoted to a particular policy outcome is successful at "capturing" influence with the staff or commission members of a regulatory agency so that the preferred policy outcomes of the special interest are implemented, then regulatory capture has occurred.

Regulatory capture theory is a core focus of the branch of public choice referred to as the economics of regulation; economists in this specialty are critical of conceptualizations of governmental regulatory intervention as being motivated to protect public good. Two often cited articles are Laffont & Tirole (1991) and Levine & Forrence (1990).

The theory of regulatory capture is associated with Nobel laureate economist George Stigler, one of its main developers. Two other cited references are Bernstein (1955) and Huntington (1952).

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Economic rationale

The idea of regulatory capture has an obvious economic basis in that vested interests in an industry have the greatest financial stake in regulatory activity and are likely to be less hindered by collective action problems that might riddle those affected by regulation (like dispersed consumers each of whom has little particular incentive to try to influence regulators). As well, we would expect that when regulators form expert bodies to examine policy, this will invariably feature current or former industry members, or at the very least, individuals with contacts in the industry.

Some economists, such as Jon Hansen and his co-authors, argue that the phenomenon extends beyond just political agencies and organizations. Businesses have an incentive to control anything that has power over them, including institutions from the media to academia to popular culture, and thus will try to capture them as well. When this happens, they call this phenomenon "deep capture."[2]

http://en.wikipedia.org/wiki/Regulatory_capture
Libertarian economists assert this phenomenon applies universally to all government regulation by default. In effect, that regulation is the result of capture, not vice versa.

Examples

Historians, political scientists, and economists have used the Interstate Commerce Commission (ICC), a federal regulatory body in the United States, as a classic example of regulatory capture. The creation of the ICC was the result of widespread and longstanding anti-railroad agitation, but the Commission was later accused of acting in the interests of railroads and trucking companies. The ICC, they claimed, set rates at artificially high levels and excluded new competitors through a restrictive permitting process.[3]

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The academic Thomas Alured Faunce has argued the World Trade Organisation Non-violation nullification of benefits claims, particularly when inserted in bilateral trade agreements, can facilitate intense lobbying by industry which can result in effective regulatory capture of large areas of governmental policy.[4]

US Federal Reserve is often accused of acting in favour of FRS banks. The number of Fed officials whose previous careers and post-Fed appointments are with FRS banks is pointed out as circumstantial evidence. US Treasury close ties to large investment banks is also sometimes cited as an example of regulatory capture.

Quotes

In 1913 Woodrow Wilson wrote: "If the government is to tell big business men how to run their business, then don't you see that big business men have to get closer to the government even than they are now? Don't you see that they must capture the government, in order not to be restrained too much by it? Must capture the government? They have already captured it."[5]

See also

- Corporate welfare
- Déformation professionnelle
- Government failure
- Iron triangle
- Rent seeking
- Public choice theory
- Revolving door (politics)

References

Notes

3. ^ Free to Choose, Milton Friedman
Bibliography


External links

- Regulatory Capture: Causes and Effects


Categories: Economics of regulation | Lobbying | Administrative law
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