Govt. 101 Prof. John Kincaid

Government Regulation

1. The economic philosophy of ***laissez faire*** (“leave alone”) minimizes government regulation, but **market failures** are a key reason for government regulation

   A. Monopoly

      1) Interstate Commerce Commission (1887-1996)

      2) Sherman Anti-Trust Act of 1890

   B. Imperfect Information

      1) Insider trading

      2) Occupational licensing

      3) Inspection Systems

         a. Pure Food and Drug Act of 1904

         b. Meat Inspection Act of 1904

            i. Beef: USDA prime, choice, and select (The higher the ratio of marbling and the younger the beef, the higher the grade.)

   C. Negative externalities

   D. Health and Safety at workplaces and public places

   E. Public Goods

   F. Poverty and inequality

2. Government Failures

A. Crowding Out: Government borrowing reduces private sector borrowing and government spending reduces private sector spending.

B. Subsidizing Inefficiency: Supporting inefficient firms and driving down prices that discourage new market entrants.

C. Regulatory Capture: The regulated industry captures or co-opts the regulatory agency.

D. Imperfect Information: Government does not know enough to make efficient allocations of resources.

E. Excessive Bureaucracy: Too many bureaucrats and "red tape" can stifle economic performance.

F. Moral Hazard: If banks know government will bail them out, they will take unwise risks; if individuals know that government will give them unemployment benefits or free medical care, they will be less likely to seek work and act in healthy ways.

3. Movement for deregulation since 1977

A. Telephony, which was once regarded at a natural monopoly

B. Airlines—Airline Deregulation Act of 1978

C. Buses

D. Railroads

E. Electricity

F. Natural gas

G. Banks—Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 and Gramm-Leach-Bliley Act of 1999

H. Beer

4. Re-regulation?

A. Dodd-Frank Wall Street Reform and Consumer Protection Act of 2011

5. Nudge Regulation

A. Insect at bottom of urinal reduces spillage

B. Individuals must opt-out rather than opt into a retirement plan.

C. Automatically increase amount of money withheld for retirement with each pay increase unless worker opts out of the increase.

D. Apply a sticker to new cars displaying how much gasoline they will use in five years of driving.

E. Put healthy foods in a school cafeteria at eye level, while putting less healthy junk food in harder to reach places.

F. Require people to say whether or not they wish to be an organ donor when they renew their driver's license.