

Quick Looks

Six Thumbnail Reviews by Peter VanDoren

PASSIVE SMOKE: The EPA's Betrayal of Science and Policy

by Gio B. Gori and John C. Luik

118 pp. Vancouver:

The Fraser Institute, 1999

IN 1992, THE U.S. ENVIRONMENTAL PROTECTION AGENCY (EPA) issued a report that examined the scientific literature and concluded that environmental tobacco smoke (ETS), also known as second-hand smoke, causes lung cancer in humans. A group of cigarette companies and farmers' tobacco cooperatives sued EPA, arguing that the agency did not have the authority to conduct the research and issue the report and that the report was not based on a careful, neutral analysis of the scientific literature. In July 1998, a federal district judge in North Carolina, William Osteen, agreed with the plaintiffs.

This book examines in detail EPA's use and misuse of the scientific evidence about the effects of ETS on human health. The book also examines Judge Osteen's decision. For those who are familiar with risk assessment and science policy, the list of criticisms will not be new.

Epidemiology, except for clinical trials in medicine, is not an experimental science. Instead, it asks people with a certain disease to recall their behavior, which is then compared with the recalled behavior of a "control" group of people who do not have the disease. To the extent possible, statistical controls are applied to eliminate differences between the diseased and control groups. Any remaining differences in the incidence of a disease are then attributed to behavioral differences between the groups. As critics of epidemiological studies point out, such studies are not true scientific experiments and, therefore, too readily find statistical relationships between behavior and disease.

Gori and Luik, however, go beyond

the standard criticisms of epidemiology. For example, lung-cancer rates among light smokers (persons who smoke fewer than five cigarettes a day) do not differ much, if at all, from lung-cancer rates among nonsmokers. If smoking up to five cigarettes a day has little effect on the incidence of lung cancer, it seems implausible that ETS is a carcinogen, given that exposure to ETS is the equivalent of smoking one cigarette evenly over the span of a year.

EPA appealed Judge Osteen's decision. Arguments were heard in June 1999. A decision should be issued soon. EPA argued in its appeal that the original suit should be dismissed because EPA had not yet used its analysis to alter anyone's behavior. EPA did not argue that its analysis was sound—perhaps because EPA knew better.

THE POLITICS OF PURITY: Harvey Washington Wiley and the Origins of Federal Food Policy

by Clayton A. Coppin and Jack High

219 pp. Ann Arbor:

The University of Michigan Press, 1999

TRADITIONAL SCHOLARSHIP ABOUT health and safety regulation portrayed government programs as the good guys and corporations as the bad guys. Gabriel Kolko and George Stigler made us realize that much government regulation of the economy was in fact requested rather than resisted by business.

A modified version of the Stigler-Kolko analysis is now in the ascendancy among regulatory scholars. Regulation is now seen as the result of complex competitive interaction between some firms seeking to reduce competition from other firms and some agencies seeking to grow relative to other agencies within the government. This gem of a book, the result of the collaboration between a historian and an economist, tells the story of the Pure Food and Drug Act as a complex inter-

action between various food and beverage companies and a government agency, The Bureau of Chemistry, that was threatened with extinction.

Harvey Washington Wiley, the main author and proponent of the Pure Food and Drug Act, traditionally has been viewed by the press and scholars as the defender of pure food and honest labeling. But, as the authors point out, the conflicts engendered by Wiley's proposals to regulate the manufactured food industry "were not contests between good and evil, or purity and adulteration, or honesty and fraud. They were contests over who would benefit and lose from regulatory activity" (p. 167). Coppin and High continue: "[Wiley's] enforcement of the act did not improve the health of the consumer.... If anything, Wiley's enforcement worsened the ability of consumers to make informed judgments about food and drugs" (p. 167).

They go on to point out that some of Wiley's claims "were exaggerated even at the time he made them, and they certainly have not stood the test of scientific advance" (p. 167). They cite as examples his claims that rectified whiskey coagulated the protoplasm, that preservatives hindered the digestive processes, and that sucrose was healthier than glucose. "In short," they say, "none of the issues to which Wiley devoted the lion's share of his enforcement efforts furthered the interests of the consumer in any significant way" (p. 168).

The story of the Pure Food and Drug Act, as told by Coppin and High, reveals one of the "chief dangers" of regulation in a democratic society, namely, that "personal opinion and special interest can masquerade as objective science and public good, thereby corrupting even potentially useful law" (p. 171).

IS WELFARE WORKING? The Massachusetts Reforms Three Years Later

by M. Anne Hill and Thomas J. Main

154 pp. Boston:

Pioneer Institute For Public Policy Research, 1999

POLICY ANALYSIS IS OFTEN DEPRESSING. Existing policies are often inefficient and inequitable. Policy reform is

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impossible because the costs of reform are concentrated and the benefits are diffuse. But despite all the odds, policies sometimes are reformed for the better. Hill and Main's book describes the transformation of the Massachusetts welfare system from a high-caseload dependency system to one with fewer recipients and strong incentives to work.

The results are striking. In the three years after the passage of reform legislation, the caseload in Massachusetts shrank by 34 percent, from 99,000 families to 65,000 families. A reduction of 22,000 would have been expected, given the improving economy during the three-year span. Careful statistical analysis shows that the rest of the reduction—that is, the other 12,000 cases—is attributable to reform.

In addition, female heads of households in Massachusetts are now no more likely than female heads of households in other states to receive public assistance. Historically, female heads of households in Massachusetts have been 10 percentage points more likely to receive public assistance than female heads of households in other states.

Finally, interviews with caseworkers in the Massachusetts Department of Human Services suggest that the agency's culture has changed from one of indifference to, and even advocacy of dependency, to a focus on work.

LETTING GO: Deregulating the Process of Deregulation

by Alfred Kahn

146 pp. East Lansing:
Michigan State University Institute of Public
Utilities and Network Industries, 1998

THE DEAN OF REGULATORY ECONOMISTS has published what amounts to the third volume of his two-volume work, *The Economics of Regulation: Principles and Institutions* (New York: John Wiley & Sons, 1970 and 1971). This short book affords one-stop access to Kahn's arguments about attempts to deregulate electricity and telecommunications. Those arguments should be familiar to the readers of this magazine.

Kahn believes that electric utilities are entitled to recover their not yet fully depreciated capital investments. Not

allowing them to recover those investments produces a version of what Oliver Williamson calls the holdup problem. If electricity firms had known *ex ante* how regulators would treat them *ex post*, they would never have made the investments. Many pages of *Regulation* have been filled with the opposite argument, but Kahn states his case as well as anyone.

The remainder of the book critiques the implementation of the Telecommunications Act of 1996 because the Federal Communications Commission (FCC) micromanages the process of deregulation. Kahn criticizes restrictions on incumbent firms' ability to offer new services in the name of preserving "fair" competition because such restrictions prevent the utilization of economies of scale and scope.

He also criticizes FCC's mandatory open access policy. Rather than limit the mandatory open-access philosophy to "bottleneck" infrastructure, FCC has required that all components of incumbent telecom infrastructure be made available for rent at incremental costs. The net effect has been extensive litigation and little incentive for firms to invest in new facilities. Instead, new firms seek access to current facilities that may not be optimal because regulation rather than market forces created the facilities. In the words of Robert Crandall "there is no limit to the ideas that I may have for using your property at prices that are as low as those I could obtain by building the facilities myself."

REGULATORY REFORM AND LABOR MARKETS

by James Peoples (editor)

390 pp. Boston:
Kluwer Academic Publishers, 1998

THIS EDITED VOLUME INCLUDES ORIGINAL papers and referee comments that examine labor markets in several regulated markets (trucking, rail, airline, and telecommunications) after deregulation.

To the extent that labor shared in the rents created by regulatory entry barriers, and to the extent that competition increases after deregulation, one would predict that deregulation would result in a decline in wages. Unionized

truckers' wages decreased by 15 percent relative to the wages of nonunion truckers and a male-worker control group. Earnings were eroded in the railroad sector but not by as much as trucking wages. Airline wages appear to have decreased by 10 percent while telephone workers seem to have experienced the least reduction because of the lack of local competition in the telephone industry.

THE FOUNDATIONS OF REGULATORY ECONOMICS

by Robert B. Ekelund Jr.

1613 pp. (3 volumes) Northampton, Mass.:
Edward Elgar Publishing, Inc., 1998

THIS MASSIVE REFERENCE WORK COMPILED by Robert Ekelund is the regulatory economics equivalent of a greatest hits album. Volume I has five sections: The Beginnings, Early Theories of Railway Regulation, The Early Theory of Price Discrimination, The Development of Marginal Cost Pricing, and Joint Cost and Peak Load Pricing. Volume II has four sections: Cracks in the Mirror: Public Interest and Efficiency Questioned; The New Theory of Regulation: Public Interest Versus Interest Groups; Contracts and Franchise Bidding; and Externalities, Market Failure, and Regulatory Responses. Volume III has four sections: Contemporary Issues in Regulatory Economics; Deregulation: Contemporary Theory, Industries, and Issues; Empirical Studies of Regulatory Effects; and Historical Studies of Regulation.

The main benefit of such a collection is the tremendous reduction in transaction costs that results from not having to find the original journal articles or chapters in the library. But I think an additional benefit is the injection of history into an increasingly ahistorical economics profession. Economists, particularly young economists, rarely read anything published before 1990, let alone 1890. This collection starts in 1849 and slowly marches through the nineteenth and twentieth centuries. The older articles remind the reader that disputes about price discrimination and access to bottleneck assets have been around for quite some time. ■