Infrastructure and Regulations

(September 14 Session)

Professor Karen R. Polenske
Where are we?

• Last time: market v.s. state
  private goods v.s. public goods

• Focus of this class session:
  Infrastructure, Property Rights and Regulations
Review of Articles

The *Tragedy* of the Commons

**Key concepts:**
- Social cost vs. private cost
- Externality (negative vs. positive)
- Collective action problem

Multiregional Planning Team, MIT
Review of Articles

The Tragedy of the Commons

• The State -- Public Ownership

• The Market -- Private Ownership
Review of Articles

The Tragedy of the Commons?
Re-interpreting the commons

- Elinor Ostrom, Winner of 2009 Nobel Memorial Prize in Economic Sciences

Review of Articles

• How does this article connect to infrastructure issues?

• More on property rights— a bundle of rights
Have a catchy title!

“The Tragedy of the Commons” (Hardin, 1968)

• “The Comedy of the Commons” (Rose, 1986)

• “The Tragedy of the Anti-commons” (Heller, 1998)

• “Semi-common Property Rights and Scattering in the Open Fields” (Smith, 2000)
Review of Articles


What are regulations? What explains government regulations of economic activities?
Review of Articles


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Heads chopped:

- “public interest” theory
- “capture” theory
Review of Articles


What explains government regulations of economic activities?

- Shoulder(s) stood on:
  - Economic analysis of the political system (interest group theory)
- Posner’s argument
Review of Articles


- What are some of the reasons why regulation is needed?
- Give an example of why regulation is needed in each of the following:
  - Health
  - Safety
  - Environmental protection
Review of Articles


Discuss the following regulation strategies:

- Competition laws
- Franchises
- Taxation
- Contracts
- Loans
- Tradeable permits
Review of Articles

United Nations. 2001. The Economic Regulation of Transport Infrastructure (cont’d.)

Are large firms easier to regulate through the use of tradeable permits than small firms? Under what conditions?

In environmental agencies, “command and control” is sometimes replaced by “incentives.” Discuss the costs and benefits of each. (e.g., South Coast Air Quality Management District – SCAQMD--in Los Angeles)
Tying it together

Infrastructure

Regulations

Property Rights
Where are we?

• Concluded the introduction part

• Will examine the part on Infrastructure, Economic Stimulus, and Development
11.165 / 11.477 Infrastructure and Energy Technology Challenges
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