Why does the regulation of risks to human health and safety vary so dramatically from one policy domain to another? Why are some risks regulated aggressively and others responded to only modestly? Is there any logic to the techniques we use in risk regulation? This book addresses these important questions by systematically examining variety amongst risk regulation regimes across policy domains, analysing the significant driving forces shaping those regimes, and identifying the causes of regulatory failure and success. In order to do so, the book develops a systems-based concept of a ‘risk regulation regime’, which enables comparative description and analysis of the rules, institutional arrangements, and cultures that are bound up with the handling of risk within and between regimes. Using that framework, the book analyses how regimes and their constituent components are differentially shaped by three major driving forces—namely, the pressures exerted by market failure, by public opinion, and by organized interests inside and outside the state apparatus—and blame-avoidance responses of regimes in the face of pressures for greater openness. The book applies the method to analyse a range of risk regulation regimes that cross the divide between ‘natural’ and ‘socially created’, state-created and market-created, ‘voluntary’ and ‘involuntary’, high-tech and low-tech, individually, and corporately produced risks. Those regimes include the release of paedophiles into the community, air pollution, local road safety, radon, pesticides, and dangerous dogs. The analysis reveals both variations and paradoxes that can neither be identified by single case studies, nor be easily explained by macro-oriented approaches to understanding risk regulation. The Government of Risk shows how such an approach is of high policy relevance as well as of considerable theoretical importance.
A Formal Approach: Capital Market Failures
Joseph E. Stiglitz, José Antonio Ocampo, Shari Spiegel, Ricardo Ffrench-Davis, and Deepak Nayyar

in Stability with Growth: Macroeconomics, Liberalization and Development
Published in print: 2006 Published Online: September 2006
Publisher: Oxford University Press
DOI: 10.1093/0199288143.003.0011
Item type: chapter

Underlying the failure of CML was an overly simple model that assumed efficient and complete markets. There are, however, problems with externalities and weak or absent insurance markets, especially in developing countries, that these models did not consider. This chapter focuses on major categories of ‘market failures’. It examines the direct externalities associated with capital flows, and looks at how capital market liberalization can exacerbate the problems posed by coordination failures and broader macroeconomic failures. It also looks at the effect of imperfect information on investor behavior and the market failures associated with capital markets. It concludes with a discussion of the major objectives of government intervention.

Exploring the ‘Market Failure’ Hypothesis
Christopher Hood, Henry Rothstein, and Robert Baldwin

in The Government of Risk: Understanding Risk Regulation Regimes
Published in print: 2001 Published Online: November 2003
Publisher: Oxford University Press
DOI: 10.1093/0199243638.003.0005
Item type: chapter

Explores how far variety amongst risk regulation regimes can be explained by ‘market failure’ explanations of risk regulation. A ‘market failure’ approach assumes that state activity will consist of the minimal level of intervention needed to correct for specific failures in market or tort-law processes created by risks—i.e. where the costs of individuals informing themselves about risks or opting out of risks through market or civil law methods are very high. This chapter analyses the market failure characteristics of the nine case-study risks and then compares theoretical expectations with what is observed in practice. Analysis suggests that ‘market failure’ explanations can go some way in explaining observed regime variety, and certainly take us beyond superficial ideas of the ‘nanny state’ or its converse, but cannot predict a substantial proportion of observed features and paradoxes.
Infrastructural Resources

Brett M. Frischmann

in Infrastructure: The Social Value of Shared Resources

Published in print: 2012 Published Online: May 2012
Publisher: Oxford University Press
DOI: 10.1093/acprof:oso/9780199895656.003.0005
Item type: chapter

This chapter examines societal demand for infrastructure resources. It aims to identify and evaluate infrastructural resources functionally from a systems perspective and to understand better how individuals who obtain access to infrastructure resources both realize and create social value. It identifies and examines three economic criteria common to traditional infrastructure, such as transportation systems and telecommunications networks; and nontraditional infrastructure, such as the atmosphere and basic research. It develops a typology of different infrastructure (commercial, public, social, and mixed infrastructure) based on the types of systems dependent on the infrastructural resource and the distribution of productive activities it facilitates. It also discusses how both the resource set delineated by the three criteria and the subsets delineated by the typology are dependent on demand, and how resources may evolve into or out of the set or subsets. Throughout, the chapter explains how different types of demand-side market failures arise when spillovers from public or social goods are prevalent.

Capitalism Justified?

Philippe Van Parijs

in Real Freedom for All: What (if Anything) Can Justify Capitalism?

Published in print: 1997 Published Online: November 2003
Publisher: Oxford University Press
DOI: 10.1093/0198293577.003.0007
Item type: chapter

Is there any reason to expect some form of socialism to do better than any form of capitalism in terms of securing a high sustainable level of basic income? None of the familiar arguments against capitalism—from market failures to cyclical crises and the reserve army of the unemployed—can justify the presumption that it will do worse than socialism in terms of efficiency. On the contrary, the fundamental fact that, unlike what happens under socialism, capitalist firms have to submit to the ruthless rule ‘Innovate or perish’ justify the presumption of capitalism's superior dynamic efficiency. But in a globalized capitalist economy, the sovereignty democratically exercised over this larger wealth keeps eroding, to the point that capitalist societies become
unable to sustainably turn part of it into a higher basic income than would be possible under the best version of feasible socialism?

Social Risks and Welfare States
Gøsta Esping-Andersen

in Social Foundations of Postindustrial Economies

This chapter and the previous one revisit the political economy within which post-war welfare regimes emerged, matured, and, now appear crisis-ridden. Here, an analysis is made of social risks and welfare states. The post-war welfare state was premised upon assumptions about family structure and labour market behaviour that, today, are largely invalid. Risks that in the 1950s or 1960s were assumed away are now becoming dominant, and vice versa. The post-war welfare state being the child of the 1930s Depression and the ‘workers question’, was moulded on a society in which the prototypical client was a male production worker, who is now rather hard to find. A first step towards an understanding of the contemporary welfare state crisis must begin with: (a) a diagnosis of the changing distribution and intensity of social risks, and (b) a comprehensive examination of how risks are pooled and distributed between state, market, and family. The different sections of the chapter are: The State in the Welfare Nexus—the misunderstood family, and the welfare triad of state, market, and family; The Foundations of Welfare Regimes: Risk Management—family and market ‘failures’; and The distribution of risks and models of solidarity—class risks, life-course risks, intergenerational risks, de-commodification, and familialism and de-familialism.

Market and State
Yujiro Hayami and Yoshihisa Godo

in Development Economics: From the Poverty to the Wealth of Nations

The question of what kind of institutional set-up would be appropriate for promoting economic development is approached in terms of combination between market and state. The traditional debates on the choice of
development strategy between free trade and infant industry protection is examined with reference to the historical experiences of developed economies as well as recent confrontations between import substitution industrialization and the IMF-World Bank structural adjustment policies. The nature and significance of market failures versus government failures are illustrated in terms of comparisons between the Latin American Debt Crisis in the 1880s and the Asian Financial Crisis in the 1990s. The choice of the market versus the state, as well as growth versus equity, is discussed in reference to the changing paradigms in the IMF-World Bank.

Fat Economics
Mario Mazzocchi, W. Bruce Traill, and Jason F. Shogren

Published in print: 2009 Published Online: October 2011
Publisher: Oxford University Press
DOI: 10.1093/acprof:oso/9780199213856.001.0001
Item type: book

The obesity epidemic and the growing debate about what, if any, public health policy should be adopted is the subject of endless debates within the media and in governments around the world. Whilst much has been written on the subject, this book takes a unique approach by looking at the obesity epidemic from an economic perspective. Written in a language accessible to non-specialists, the authors provide a timely discussion of evolving nutrition policies in both the developing and developed world, discuss the factors influencing supply and demand of food supply, and review the evidence for various factors which may explain recent trends in diets, weight, and health. The traditional economic model assumes people choose to be overweight as part of a utility maximisation process that involves choices about what to eat and drink, how much time to spend on leisure, food preparation, and exercise, and choices about appearance and health. Market and behavioural failures, however, such as time available to a person, education, costs imposed on the health system and economic productivity provide the economic rationale for government intervention. The authors explore various policy measures designed to deal with the epidemic and examine their effectiveness within a cost-benefit analysis framework. While providing a sound economic basis for analysing policy decisions, the book also aims to show the underlying limits of the economic framework in quantifying changes in public well-being.
How Far Does Context Shape Content in Risk Regulation Regimes?

Christopher Hood, Henry Rothstein, and Robert Baldwin

in The Government of Risk: Understanding Risk Regulation Regimes

Reviews received explanations of why governments regulate risk in the way they do and identifies a triangle of contextual forces that may sometimes pull together in shaping risk regulation regimes and sometimes pull in opposite directions. Those forces relate to market failure, mass public opinion, and organized interests. The chapter argues that analysis of these contextual factors can help explain variety amongst risk regulation regimes but identifies some of the methodological problems involved in such an analysis. Detailed analysis of how far such contextual factors shape the content of risk regulation regimes is presented in Chs.5, 6, and 7.

Technological Systems and Comparative Systems of Innovation: From Historical Performance to Future Policy Guidelines

Nick Von Tunzelmann

in The Economic Future in Historical Perspective

This chapter looks at the comparative systems approach to understanding the way in which different institutional regimes affect the governance of technological development. It focuses on four institutional constraints: market failure, government failure, corporate failure, and network failure. Each has the potential to impede or disconnect the linkage between the production of technology and the use or adoption of technology.
Is There Scope for Policy?
Giorgia Brunello, Pietro Garibaldi, and Etienne Wasmer

in Education and Training in Europe
Published in print: 2007 Published Online: September 2007
DOI: 10.1093/acprof:oso/9780199210978.003.0014

This chapter discusses how design of training policies is strongly related to the type of market failures conducive to under-provision. The empirical evidence on the relevance of efficiency and equity issues is considered, and a political economy view of training subsidies is proposed. Furthermore, the key features of the training policies in place and the implications for training and product market reforms are examined, along with the evidence on the effect of training on turnover and the limited evidence on the importance of credit constraints. The chapter concludes that one needs to be prudent when designing public policies aimed at raising the provision of workplace training; there is no clear-cut evidence that the level of workplace training produced by firms and employees is significantly lower than the socially efficient level; governments have an important role to play in improving information about training opportunities, setting appropriate legal frameworks, and ensuring portability of skills; product and labour market reforms do affect training participation.

Capital Market Liberalization and Development
José Antonio Ocampo, Shari Spiegel, and Joseph E. Stiglitz

in Capital Market Liberalization and Development
Published in print: 2008 Published Online: May 2008
DOI: 10.1093/acprof:oso/9780199230587.003.0001

This introductory chapter presents the arguments of the book and provides a framework for the issues related to capital market liberalization (CML). The first section addresses an important set of market failures that are likely to be significant in developing countries, and shows how they provide a rationale for state intervention in capital markets. The second section analyses the effects of capital market liberalization on developing countries, showing how the procyclical nature of short-term capital flows can lead to financial and macroeconomic volatility and undermine growth. The third section introduces alternative policy options for interventions in capital markets, including direct and indirect capital controls and international...
regulations. The last section concludes by arguing that CML has high economic and social costs in developing countries, whereas its assumed benefits in terms of both economic stability and growth are unlikely to materialize.

Toward a Rational Basis for Regulation
W. Kip Viscusi

in Rational Risk Policy: The 1996 Arne Ryde Memorial Lectures
Published in print: 1998 Published Online: November 2003
DOI: 10.1093/0198293631.003.0008
Item type: chapter

Various forms of irrationality often provide the rationale for intervention to address market failures. However, in a democratic society, these forms of irrationality often provide the impetus for government policy. The policy task is to develop risk regulation policies that would emerge if the public responded rationally to risk.

The anatomy of government failure
Timothy Besley

in Principled Agents?: The Political Economy of Good Government
Published in print: 2007 Published Online: October 2011
DOI: 10.1093/acprof:oso/9780199283910.003.0002
Item type: chapter

This chapter focuses on government failure. Most economists now agree that the idea of government failure needs to be placed alongside the idea of market failure in discussions of government intervention. However, unlike market failure, there is no agreed upon definition of government failure. The economics literature is also obscure on which aspects of government failure are intrinsic to the fact that government has a monopoly of coercive power and which aspects are consequences of democratic political competition. The chapter provides an overview of these ideas and develops some simple economic examples to illustrate the main ideas.
Community has a problematic relationship to economics. In general, contemporary political economics holds that groups have strongly negative effects on economic efficiency and growth, because groups bind individuals into situations where they can no longer realize their preferences, exit freely, and find effective representation for their interests. Communities are, at best, necessary evils when there are egregious market failures. There are other strands of economic research, however, that can be drawn on to provide micro-foundations for the welfare-enhancing properties of communities. With these in hand, we can draw a more complete picture of the potential welfare effects of communities, revealing how geographical processes — increasing factor mobility and global market integration — strongly affect the shape and functioning of communities and hence alter the balance of their positive and negative economic welfare effects.

Market contractarianism
Jules L. Coleman

This chapter discusses two theories about legitimate political authority. The first is that political institutions are justified because they emerge as the outcome of a rational bargain among individuals who recognise the state of nature as a prisoners' dilemma. The state of nature thus constitutes a form of market failure, and coercive political institutions are justified as solutions to the problem of market failure. This is termed thin market contractarianism. In contrast, thick market contractarianism is the view that political authority is justified not only to rectify market failure, but also to make possible the conditions of market success in the classical economic sense. The chapter introduces a move from classical economic models to more general rational choice models, especially bargaining theory. What was once seen largely as market
failure problems, are now bargaining problems embedded in prisoners' dilemmas.

Governance and Growth Challenges for Africa
Mushtaq H. Khan

in Good Growth and Governance in Africa: Rethinking Development Strategies
Published in print: 2011 Published Online: May 2012
Publisher: Oxford University Press
DOI: 10.1093/acprof:oso/9780199698561.003.0004
Item type: chapter

Liberal economists have argued that since the state has done much damage in Africa, the best strategy is to focus on a limited number of market-supporting governance capabilities consistent with good governance and to construct limited states that avoid “syndromes.” However, limiting the state to these tasks also means that critical capabilities to address significant market failures are not developed. Moreover, there is no evidence that substantial developmental transformations were achieved in any country simply by avoiding syndromes. Given the initial political and institutional conditions in many African countries, a Hirschmanian strategy of building very specific and limited growth-enhancing governance capabilities through experimentation and problem-solving is a more plausible way forward. African countries face different developmental challenges, but there are common market failures in acquiring technological capabilities, investing in skills, and in land markets. Developing specific governance capabilities for addressing a small number of critical market failures can potentially accelerate development.

Introduction
W. Kip Viscusi

in Rational Risk Policy: The 1996 Arne Ryde Memorial Lectures
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DOI: 10.1093/0198293631.003.0001
Item type: chapter

This chapter introduces the linkage between economic behaviour and risk regulation policies. Analysis of individual behaviour often reveals the nature of private market failures and provides guidance with respect to the appropriate forms of intervention. However, irrationality in behaviour can also generate the impetus for misguided government policies to the
extent that policies are responsive to citizen preferences even when they are irrational.

The Market and Information
Nicholas Barr

in The Welfare State as Piggy Bank: Information, Risk, Uncertainty, and the Role of the State

Published in print: 2001 Published Online: November 2003
Item type: chapter

This chapter sets out the economic theory of the role of the state that underpins the rest of the book. It starts with a simple model – the Fisher model – of rational consumer choice over the life cycle. Subsequent sections relax the underlying assumptions, discussing in turn imperfect information in the goods market, the economics of insurance, the effect of imperfect information on insurance markets, and social insurance as a response to information failure. The concluding section summarizes the implications for policy, including discussion of market failure and government failure.

Introduction
Bar-Gill Oren

in Seduction by Contract: Law, Economics, and Psychology in Consumer Markets

Published in print: 2012 Published Online: September 2012
Item type: chapter

This introductory chapter first sets out the book's main focus, namely consumer contracts. It traces design features common among multiple types of consumer contracts and explores and explains the forces responsible for these design features. The discussion then turns to market forces and consumer psychology, social costs of the behavioural market failure, and toward more effective disclosure mandates.