

Review of: José Gómez-Ibáñez, *Regulating Infrastructure: Monopoly, Contracts, and Discretion* (Harvard University Press, 2006 [431 pp., including notes/text]).

Following the 2000 Californian electricity crisis, the 2001 implosion of Enron, and recent revelations that Japanese private utilities have routinely violated nuclear safety codes for the past decade, the public is understandably skeptical of private utility and infrastructure companies. José Gómez-Ibáñez's latest book asks readers to reconsider market-based contractual mechanisms for providing public utilities. These sectors include durable, often immobile, goods which may be most amenable to natural monopolies, such as water, gas, airline, electricity, and railroad services.

For Gómez-Ibáñez, infrastructure provision is a problem of long-term contracting and he openly states his preference for private contracts in these sectors. He outlines four strategies for regulating infrastructure monopolies ranging from market-based approaches based on private contracts, to concession contracts, discretionary regulation, and finally publicly owned and operated enterprises. Through diverse comparative case studies covering extended historical periods, Gómez-Ibáñez seeks to demonstrate that non-market-based policies often result in market inefficiencies which undermine regulatory regimes as prices rise. In some cases, this leads to state intervention, such as the expropriation and nationalization of private enterprises. Although recognizing that not all environments are conducive to private enterprise (17, 250), the book only details private market-based cases and not public enterprises.

The book's largest contributions are found in its analyses of Argentina, Sri Lanka, England, and the United States. Whether it is Sri Lanka's cycle of privatization-regulation-nationalization in its bus sector or England and Argentina's privatization of railroads and electricity, the book shows the value of the comparative approach to regulation. Few scholars have seamlessly integrated the historical, institutional, and economic threads into a comprehensive narrative which illuminates the multiple factors in infrastructure provision. Given its breadth, this study is bound to raise further questions; three stand out.

First, given its topic, it gives surprisingly little attention to the controversial politics of constructing infrastructure. There is a burgeoning literature on the siting of large-scale infrastructure and utility projects, including railroads, airports, nuclear power plants, and electrical lines, documenting the NIMBY (Not In My Back Yard) politics of local communities who bear the brunt of the externalities created by these facilities. There is a brief mention of the fact that "cities no longer dispose of their solid waste within the city limits because of the constraints on siting new landfills and incinerators" (185) and that the Federal Aviation Administration (FAA) has limited the number of flights at major US airports (210), but these oblique references hint at larger interactions between the state and civil society that go beyond the dimensions of public or private control. McAvoy (1999), Levy (1999), and Aldrich (forthcoming) have described how local resistance can influence the state's long-term infrastructure and planning strategies. This omission is puzzling due to the author's contention that decision-making processes are often as

important as the decisions themselves (20) and that “an intensely unhappy minority can be very influential” (216).

Second, the robustness of the author’s claim that private contracting is commonly superior to public provision remains open for debate. While acknowledging private and public rent-seeking behavior in the provision of infrastructure, the book does not delve deeply enough into the potentially disastrous consequences of profit-focused operators involved in facilities where error could mean catastrophe. Gómez-Ibáñez does not acknowledge that even with perfect oversight and government regulation, rational companies will only maintain safety levels to avoid penalties. In Chapter 11, he notes four fatal railroad accidents under the privatized British system, but other examples, ranging from the 1999 fatal accident at the privately-run Japanese nuclear fuel factory in Tokaimura to the 1979 near-disaster at Three Mile Island, loom large. Readers wishing to balance Gómez-Ibáñez’s account should pair this book with the study of Paul MacAvoy and Jean Rosenthal (2005) which shows how low-cost dominant strategies at Northeast Utilities led to the shutdown of their reactors due to unsafe conditions.

Other scholars, including Dennis Brion (1991), have noted the role governments must play in high risk, capital intensive facilities such as nuclear power plants and hydroelectric dams. Without public financial support for research and development, underwriting risk, and guaranteed profits, many private firms would not enter these sectors. What Gómez-Ibáñez calls market-based, private contracts are often supported directly or indirectly by the state through submerged legal provisions such as the United States’ Price-Anderson Nuclear Industries Indemnity Act or Japan’s Three Power Source Development Laws [*Dengen Sanpō*].

Finally, for students of political science and public policy, the politics of deregulation may be more nuanced than portrayed here. While Gómez-Ibáñez raises the classical literature on regulation and regulatory capture, including Peltzman, Becker, Stigler, and Wilson, he overlooks recent work which provides more a detailed understanding of the political space created during deregulation, which often brings “re-regulation.” The straight-forward spectrum that the book creates between public enterprise and private contracts is more complex in reality. As Steve Vogel (1996) has shown, state agencies are self-interested actors in the regulatory process and deregulation does not preclude government intervention and manipulation.

Despite any shortcomings, *Regulating Infrastructure* provides an excellent overview of the ways modern nations handle the dilemma of providing critical infrastructure to their citizens. The book is free of economic jargon, unreadable tables, and complex equations. Its division into country chapters makes it an excellent text for advanced undergraduates and graduate students interested in the comparative politics of regulation.

References

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