cross a threshold that courts have held to be "practically insurmountable."

It is doubtful that the abrogation of international cable consortia agreements could meet that test. International ventures are inherently risky, and the mitigation of risks through joint ventures has been standard industry practice for 60 years. The parties to joint ventures must have confidence that their contracts will not be abrogated or challenged in either domestic or (especially) foreign courts. FCC intervention to abrogate contracts in the undersea cable market—where there is no policy-relevant barrier to entry—would undermine the sanctity of private contracts and make it far more difficult for *all* U.S. firms—telecoms or otherwise—to do business abroad.

WHITHER (OR WITHER) FREE TRADE?

WHERE DO WE GO FROM HERE? IF THE U.S. GOVERNMENT really favors creating a global information infrastructure, it simply makes no sense to erect barriers to entry into the primary market for international voice and data communications. The FCC-instigated telecoms trade war is dangerously close to getting out of hand. Thus, in remarks before the Dallas Ambassadors Forum last April, Federal Reserve Chairman Greenspan expressed his "regret" that the United States' "trade laws and negotiating practices are essentially adversarial" and his concern "about the recent evident weakening of support for free trade in this country."

More than 200 years ago, Adam Smith warned that naked mercantilism harms consumer welfare. That warning notwithstanding, it seems that we must again remind the Federal Communications Commission that trade and public utility regulation do not mix. Indeed, given America's already tenuous credibility in the international community, the commission's inept Machiavellian maneuvers can only goad other nations to retaliatory acts that will make it more difficult for U.S. firms to do business abroad (contrary to the Clinton administration's ostensible goals) and, more importantly, will harm U.S. consumers. ■

Libertarian Advice: Superfluous or Essential?

By Richard L. Gordon

MUCH LIBERTARIAN ECONOMIC ANALYSIS examines barriers to regulatory reform. In a recent article entitled "Of Stranded Cost and Stranded Hopes: The Difficulties of Deregulation" (*The Independent Review* 3 [1999]: 485), Fred McChesney draws on that literature to produce an extremely pessimistic analysis of the possibility of and benefits from deregulation. Although he describes his analysis as positive—obviously as opposed to normative, certainly not as the antonym of negative—he gives the impression that policy analysis is an exercise in futility.

McChesney's case is an elaboration of prior theoretical analyses of the difficulty of regulatory reform. He emphasizes the most pessimistic interpretations of the most pessimistic sources. He neglects more optimistic views in the same sources. Even when he expresses optimistic views, he tries to undermine them. To twist the words of a 1940s song, he "accentuates the negatives, eliminates the positives, and messes with Mr. In-between."

CAUSES FOR PESSIMISM

McCHESNEY ARGUES THAT DEREGULATION IS DIFFICULT for several reasons. First, it creates concentrated wealth losses and diffuse efficiency gains, the net effect of which is to produce great political resistance. Second, the efficiency gains from actual (as opposed to theoretical) deregulation are reduced because a substantial portion of the costs of regulation are sunk and thus not recoverable through deregulation. Third, actual (again, as opposed to theoretical) deregulation yields even lower benefits than implied by the previous point because deregulation does not lead to the pristine free-market environment desired by advocates of reform. Instead, different forms of market intervention are enacted that also distort efficiency (e.g., excise taxes) or politicians extract rents (e.g., pork-barrel spending) in return for not intervening in markets.

These arguments are not new. McChesney builds on oft-cited articles by Gordon Tullock ("The Transitional Gains Trap." *Bell Journal of Economics* 6 [1975]: 671) and Robert McCormick, William Shughart, and Robert Tollison ("The Disinterest in Deregulation." *American Economic Review* 74 [1984]: 1075) as well as his own recent work on political extortion.

COUNTERPOINTS

THE NEGATIVE VIEW MISSES MUCH, HOWEVER. GIVEN THE heavy economic burden imposed by regulation, it takes

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only a rare, modest success to justify the cost of libertarian policy analysis.

Even those characteristics of markets that might seem to offer a compelling case for regulation are easily dismissed by relatively inexpensive analysis. For example, there are natural monopolies in those markets where demand can be met at the lowest cost by one firm instead of several competing firms. It is usually argued that government regulation must substitute for competition to discipline the behavior of monopolists. However, in a 1969 *Stanford Law Review* article, "Natural Monopoly and Its Regulation" (republished 1999 by the Cato Institute), Richard Posner contended that the existence of a natural monopoly does not justify government regulation. As long as a monopolist can charge different prices to different buyers, it can produce efficiently and still cover its average cost.

That leaves only the issue of the transfer of income to the monopolist from consumers with inelastic demand, which is not a large problem. As Posner wrote: "The resources and energies of government should be directed to problems we know are substantial, that we think are traceable to government action, and that cannot be left to the private sector to work out. There are plenty of those problems, and it is doubtful that natural monopoly is among them" (p. 109, 1999 edition).

Ronald Coase made the general case for policy analysis in an essay reprinted in a Cato-sponsored anthology edited by Daniel B. Klein, *What Do Economists Contribute?* (New York: New York University Press, 1999). In a lively discussion of the problems and payoffs of policy evaluations, Coase argued that the benefits of an analysis that leads to only a small success are far greater than the costs of the analysis. He argued, further, that the costs of the smallest programs criticized by economists far exceed the total out-of-pocket costs of good economic analysis.

In unwitting proof of Coase's point, McChesney draws on Robert Crandall and Jerry Ellig's "Economic Deregulation and Customer Choice: Lessons for the Electric Industry" (Center for Market Processes, 1997) to conclude that deregulation in telecommunications, airlines, trucking, and railroads produces annual benefits of "only" \$53 billion (\$90 per capita annually over 30 years). Surely, the economic studies that helped instigate deregulation cost only a fraction of that \$53 billion. Moreover, as Crandall and Ellig indicated, their estimates covered static, but not dynamic, efficiency gains and only part of the regulatory burden.

Only 3 of 227 items on Cato's latest list of recommended federal program terminations have an annual cost less than Cato's current budget (about \$14 million). Indeed, the total annual cost of the programs on the Cato list is \$197 billion. (See *Cato Handbook for Congress*, 1999, pp. 268-274.) Although many programs on the list continue to thrive despite analyses that suggest their costs outweigh any benefits, some programs actually are eliminated (e.g., the Interior Department's helium stockpile). Analysis by economists in the Interior Department showed long ago that whatever the nation's future helium needs there was no economic justification for a stockpile.

WHY PERSIST?

ECONOMISTS HAVE SPENT FAR MORE TIME CONDUCTING policy studies than justifying such activity or explaining under what conditions policymakers follow economic advice. In *The Citizen and the State: Essays on Regulation* (Chicago: University of Chicago Press, 1964 [reprinted 1975]), George Stigler wrote of regulatory reform: *"We do not know how to get there"* (p. 24, emphasis in original). Stigler immediately cited the absence of sufficient study as a major cause of the difficulty.

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Stigler's complaint about insufficient study has been more than remedied in the past 35 years. Economists have analyzed a wide range of policy issues, and many of their insights have filled the pages of *Regulation*. Nevertheless, an understanding of how regulatory intervention persists or suddenly crumbles remains elusive. Later writings by Stigler and Sam Peltzman confirm the difficulty of gaining that understanding. (See, for example, Stigler's *Essays in the History of Economics* (1965) and *The Economist as Preacher* (1982) and Peltzman's *Political Participation and Government Regulation* (1998), all published by The University of Chicago Press.)

However, an opportunity to secure acceptance of a libertarian reform may arise at any moment. Because the timing of such opportunities is unpredictable, it is essential to have in readiness a rationale for reform. The warnings against a given regulation may, in any event, help make it less onerous than it would otherwise be. Further, the cumulative effect of libertarian writing is to enlist new supporters to the antiregulatory cause, some of whom may attain positions of power.

The fatal flaw in McChesney's case is that he implicitly judges policy analysis by the wrong criterion: he faults it for its failure to lead to immediate and totally successful deregulation. There is an obviously better criterion: the economic principle of cost-benefit analysis. By that criterion, advocacy of deregulation can only be judged a success. ■