





The politics of regulation: A review of the international academic literature

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Abstract

How much politics goes into the development, implementation, evaluation, and reform of regulation? This question has been at the forefront of regulatory scholarship for over four decades. The current chapter maps how scholars of public administration in general and regulatory scholars in particular have theorized the politics of regulation. It first reflects on three of the major theories about the need for regulation: economic perspectives, public interest perspectives, and institutional perspectives. In the slipstream of these theories, regulatory models have for long built on the understanding that either deterrence, intrinsic motivations, or information provision are the best way to achieve compliance with regulation. The second part of the chapter engages with more recent regulatory reforms. These have begun to mix incentives (resulting in models such as Responsive Regulation and Smart Regulation) and have started to embrace insights from behavioural economics (resulting in models such as Nudging). This all to develop regulatory interventions that are more tailored to the characteristics of the individuals and organizations they target. Recent regulatory reforms have also begun to embrace non-governmental individuals and organizations as essential parts of regulatory regimes (resulting in theorizing on co-regulation and regulatory intermediaries), as well as question the need for a (politics of) regulation of regulation (resulting in theorizing on agencification, metaregulation, and regulatory stewardship).

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1 Introduction

How much politics goes into the development, implementation, evaluation, and reform of regulation? This question has been at the forefront of regulatory scholarship for over five decades (Jordana & Levi-Faur, 2004; Peltzman, 1976; Stigler, 1971; J. Q. Wilson, 1980). As in many areas of public administration, the responses to that question can be crudely summarised by:

- answers from 'traditional' Chicago-school economics from the 1970s and 1980s: the politics
 of regulation characterised by an economic cost—benefit rationale and pursued by rational
 beneficiaries and opponents of regulation;
- answers from New Public Management (NPM) from the 1990s and early 2000s: the politics of regulation characterised by a need to shift the role of government to 'steering' rather than 'rowing', and to allow for more (free) market solutions to complex problems; and
- answers from (new public) governance scholarship from the late 2000s and 2010s: the politics
 of regulation characterised by a renewed interest in (and appreciation of) the role of
 government in addressing complex societal problems (such as climate change, global
 inequality, and the Fourth Industrial Revolution) and a more realistic (i.e., less rational) model
 of human behaviour.

What binds these debates together is that they all view regulation as a process, rather than merely an instrument, to achieve the goals of public policy. I reflect in this chapter on this half century in which regulation has been understood as a policy and an administrative process. In the first part of this chapter, I summarise four of the major theories about 'the' politics of regulation: public interest perspectives, public choice perspectives, private interest perspectives, and institutional perspectives. In the second part, I touch on some of the most politically contentious issues of regulation: the use of deterrence as a means to achieve compliance, the mixing of incentives (resulting in models such as responsive regulation), the use of insights from behavioural economics (resulting in models such as nudging), the embracing of non-governmental individuals and organisations as essential parts of regulatory regimes (resulting in theories on co-regulation and regulatory intermediaries), and questions about the need for a (politics of) regulation of regulation (resulting in theorising on agencification, meta-regulation, and regulatory stewardship).

This research paper is by no means intended as an exhaustive overview of all the literature on the politics of regulation. That would ask for a book-length volume (and an excellent book is already available, see Levi-Faur, 2011a). The research paper will, however, give a robust understanding of the main debates and discussions about the politics of regulation (and sufficient references to the literature to explore these debates further yourself). Here I should note, however, that I write this research paper as a 'western' scholar, and that the chapter is strongly biased towards describing the politics of regulation as experienced in the anglosphere and north-western Europe.

2 What is regulation?

It is not easy to define the concept of 'regulation'. Here are just a few conceptualisations:

- Regulation is "the process of elaborating and correcting the policies required for the realization of a legal purpose" (Nonet & Selznick, 2009 [1978], 108).
- Regulation is "the conjunction of the mechanisms working together for social reproduction", particularly the mechanisms that reproduce economic structures and social forms (Boyer, 1990, 20).
- Regulation is a set of "public interventions which affect the operation of markets through command and control" (Prosser, 1997, 4).
- Regulation is "an intentional activity that seeks to alter the behaviour of another party" through a set of activities including standard setting, behaviour modification, and information gathering (Lodge & Wegrich, 2012, 25).
- Regulation is "sustained and focused control exercised by a public agency over activities that are valued by a community" (Scott, 2012, 18).
- Regulation is a "structured process undertaken by or under the auspices of government designed to modify the behaviour of persons or entities according to defined standards" (Windholz, 2018, 8).

What binds such definitions together is that regulation is conceptualised as an *intentional*, and often *structured* and *sustained*, *process* implemented by an individual or collective ('regulator') to *direct* the behaviour of other individuals or collectives ('targets') to achieve a *predefined aim* through a variety of *interventions* ('instruments' and 'strategies') that typically include standard setting, monitoring, enforcement, and retribution or rewards. The regulator can be a *public* party (government), a *private* party (non-profit, firm, NGO, etc.), or a *combination* of the two, and the same is true of the target or targets of regulation. Often, and this is the case with regulation in public policy, there is a third party involved as well: the *beneficiary* of regulation (a minority group, society at large, a more-than-human entity, etc.). The interventions used by regulators are typically designed to achieve the regulator's goal by making the desirable behaviour attractive (*positive incentives* such as encouragement and benefits) and the undesirable behaviour unattractive (*negative incentives* such as dissuasion and punishment) or impossible (*restrictions* such as barriers and bans).

What is regulation in the twenty-first century?

While the details of the definitions differ, scholars of public administration (and scholars of regulatory governance in particular) agree that over recent decades the conceptual understanding of what is considered to be regulation has expanded dramatically (Hodge, Maynard, & Bowman, 2014; Hutter & Lloyd-Bostock, 2017; Snyder, 2017). This changed understanding echoes the broader changes in our understanding of what government (or the state) is or ought to be doing. In other words, just as we have witnessed changes in the role of government from a 'nightwatchman' to a 'provider of welfare' (Torfing, 1998), we have witnessed changes in the role of (public) regulators from reactive 'enforcers of the law' to proactive 'guardians' of economic, social, and environmental interests (Hodge et al., 2014). Just as we have witnessed NPM-type shifts towards entrepreneurial, efficient, and lean governments (Osborne & Gaebler, 1992), we have witnessed NPM-type shifts towards evidence-based, performance-oriented, and light-touch regulators (Prosser, 2010). Just as we have witnessed

increasing calls for and applications of deliberative democracy, consensus-based decision making, and increased public participation in general politics (Gutmann & Thompson, 2004), we have witnessed increasing calls for and applications of self-regulation by firms, co-regulation between public regulators and private parties, and surrogate regulation by citizens (Gunningham & Grabosky, 1998).

However, more is at stake. Towards the end of the twentieth century, regulation stepped out of the shadow of public policy. No longer is regulation merely seen as one of the final phases of the policy process – and in particular the delivery of policy goals through standard setting, monitoring, and enforcement. Regulation has become a dominant government function. It is widely argued that the welfare state has morphed into a *regulatory* state, "a vast array of new independent institutions and new regulatory powers that seek to constrain and guide the behaviour of actors in the economy" (Humperson, 2012, 267). In this regulatory state, the delivery of public and welfare services is increasingly outsourced and contracted out to third party providers who are controlled and influenced by government regulators through processes of monitoring and enforcement (Majone, 2016). These processes themselves also call for regulation: in other words, the emergence of the regulatory state increasingly calls for the regulation of regulation. Some scholars even go so far as to consider our age as being characterised by *regulatory capitalism* (Levi-Faur, 2005). This idea acknowledges that, over recent decades, we have witnessed a growth in state regulation and non-state regulation that mutually reinforce each other and that increasingly result in hybrid forms of regulation and evolving regulatory techniques and practices.

3 The politics of regulation: Four dominant perspectives

Keeping in mind this broad understanding of regulation (which has been subject to considerable change over the last fifty years), it will come as little surprise to hear that there is no one-size-fits-all theory of the politics of regulation. Instead, multiple theories that each address different aspects exist side by side. Here, I will touch on four dominant perspectives. Again, this is by no means an exhaustive overview, but it will give you a good point of departure for further exploration. The four perspectives can roughly be clustered together into: (1) public interest theories (or perverted public interest theories) that largely focus on the challenges that come with designing and implementing regulation to achieve socially desirable ends; (2) public choice theories (or theories of self-interested agents) that largely focus on the challenges of designing and implementing regulation within and by the public bureaucracy; (3) private interest theories (or economic and capture theories of regulation) that largely focus on how regulation and regulators are influenced by private interests; and (4) a range of institutional theories that largely focus on the (incremental and accelerated) change and stability of regulation over time.

Public interest perspectives

Public interest perspectives on regulation hold that regulation is developed and implemented to pursue goals that serve the public at large – generally speaking, to address market failures or to ensure just and equal welfare provision. The challenge for those seeking to develop and implement regulation in the public interest is that 'the public interest' is an elusive concept (Noll, 1985). As a result, they find it difficult to come up with consistent and clear regulation because of a lack of information and information asymmetries, flawed understandings of the cause-effect relationships in regulation, and (unintended) side effects that can be exploited by those opposed to regulation (Baldwin, Cave, & Lodge, 2012). In addition to these 'typical' public interest challenges, those who pursue regulation from a public interest point of view may find it difficult to justify the (economic) costs of regulation because of the time lag between the implementation of a regulatory intervention and its results, the transaction costs and the costs of the unintended consequences of regulation that are difficult to predict (and measure), and the difficulty of comparing the societal costs of regulation with a counterfactual situation of no or different regulation (Joskow, 2010). A final challenge addressed within this perspective is that of 'perverted public interest' (Horwitz, 1989) – that is, situations in which the introduction of regulation results in the opposite of what was intended. For example, targets of regulation may become hostile towards a regulator because of its coercive stance, or they may seek 'creative compliance' by adhering to the letter but not the spirit of regulation (G. Wilson, 1984).

Public choice perspectives

Public choice perspectives on regulation hold that regulators, as well as their targets, beneficiaries, and political principals, pursue or oppose regulation as self-interested agents. Two distinct arguments stand out on the way in which self-interested actors affect the politics of regulation. First, those pursuing or opposing regulation seek personal gain and, in doing so, undermine the (public) interest that regulation seeks to serve. Second, because the rationality of those pursuing or opposing regulation is limited, their actions may eventually not serve their interests in the best way. The first argument touches on self-interested bureaucrats who are not willing to undertake, or even neglect, their regulatory responsibilities (shirking), on the bribery of individual regulators by targets or

beneficiaries (or even policymakers), and on the tendency of (some) bureaucrats to shift their careers between, at one time, holding public office to regulate an industry and, at another time, working in a key position in that industry (the 'revolving door' mechanism) (Horwitz, 1989). At the level of regulatory agencies, units may pursue objectives contrary to those of public policy (which may result in bureaucratic slack or turf wars), or agency appointments may be used as political rewards or political strategies (Carman & Harris, 1986) – think of the appointments by the 2017-2020 Trump government in the United States of vocal anti-regulation individuals to lead regulatory agencies. The second argument is that those pursuing or opposing regulation are faced by challenges related to their bounded rationality. It includes typical arguments about the bounded rationality of bureaucrats (e.g., their limited cognitive abilities and limited time for making decisions), but also more specific arguments about the choice made by electorates of policymakers whose (anti-)regulatory agenda does not serve their interests; the rhetorical challenges faced by regulators to explain regulatory performance to beneficiaries; and the jurisdictional challenges when the consequences of regulatory interventions (or the lack thereof) in one jurisdiction fall on (the populace of) another jurisdiction (Carman & Harris, 1986), to give some examples.

Private interest perspectives

Private interest perspectives on regulation hold that regulators are influenced ('captured') by their targets (but also by their beneficiaries and political principals) to such an extent that they systematically favour private interests and systematically ignore the public interest (Mitnick, 2011).¹ Regulatory capture becomes possible when a (relatively) small group of targets succeeds in organising and influencing opposition to regulation but a large(r) group(s) of beneficiaries and proponents fails to organise support of the regulation (G. Wilson, 1984).² In such situations, regulators (or their political principals) are frequently exposed to opposing targets and not to supportive beneficiaries. They are then likely to bend to the desires of these targets. This is also the argument of the more prosaic lifecycle theory of regulatory failure. This theory holds that a young regulatory agency is staffed with enthusiasts and has political backing from the coalition that created it, so it can regulate its industry vigorously. However, over time it will face political and societal critiques of its existence and the industry it regulates, and it will eventually move towards taking on the opinions, values, and interests of this industry (Joskow, 2010). Here I should note that regulatory capture is not always detrimental for beneficiaries. In a situation of strong capture, the public interest may be violated to such an extent that the public would be better off without that regulation and its regulators. However, in a situation of weak capture, whilst the public interest is compromised by the special interests, "the public is still being served by regulation, relative to the baseline of no regulation" (Carpenter & Moss, 2013, 12).

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¹ Within public administration scholarship, such private interest perspectives (and the related economic theory of regulation (Posner, 1974)) are often included in public choice theory (Mueller, 2003), and the overlap with the public choice perspectives on regulation discussed above is obvious. However, 'regulatory capture' is such a dominant explanatory mechanism in the regulatory governance literature that I deal with it here as a difference in kind rather than a difference in degree.

² Of course, small coalitions of opponents can also join forces, as is, for instance, explained by the 'bootleggers and baptists' theory, which builds on repeated observations of regulatory opposition by a group or groups that disputes the purpose or aim of, or need for, a regulatory intervention and is supported by a group or groups that will profit from that regulatory intervention not being introduced (Yandle, 2011).

Institutional perspectives

Institutional perspectives on regulation broadly overlap with the theories of the policy process that are well known to scholars of public administration (e.g., Weible & Sabatier, 2018). These perspectives argue that processes of regulatory change (and thus regulatory policymaking) result from incremental shifts over time (Haines, 1999), such as changing government preferences for or against regulation, regulatory agencies that are diverted from their statutory objectives, or large parts of industries not following regulatory requirements (all captured as 'drift' in historical institutionalism (Van der Heijden & Kuhlmann, 2017)), or from overlap, redundancies, and overregulation resulting from (uncoordinated) ongoing minor adjustments and additions to regulatory regimes (captured as 'layering' in historical institutionalism (Van der Heijden & Kuhlmann, 2017). Alternatively, regulatory change may result from exogenous shocks, such as society-wide crises or environmental disasters, that cannot be quickly responded or adapted to by regulation or regulators (Baldwin et al., 2012) (captured as 'punctuated equilibrium' type changes in the public policy literature (Kuhlmann & Van der Heijden, 2018)). Of course, there may very well also be 'politics' at play in situations in which regulation or regulators should be changed but no change is happening. This could be the result of, for instance, a regulatory regime that has become self-referential and closed itself off from outside disturbances, a regulatory regime that has become so rigid that it has become virtually impossible to change it, or public disappointment with a regulatory regime that is so profound that the public no longer bothers to call for change (Baldwin et al., 2012).

4 Politically contentious issues in regulation

Why to regulate, what and whom to regulate, and how to regulate quickly become politically contentious questions. There is no shortage of politically laden pro-regulation debates and there is no shortage of politically laden pro-deregulation debates (see, among others, Derthick & Quirck, 1985; Majone, 1990; Prosser, 2010). Since the 1990s, these debates have grown in volume and reach – from niche discussions amongst regulatory and socio-legal scholars to mainstream debates. Many of these debates, however, are variations on the four perspectives discussed above. Broadly speaking, proponents of regulation often follow public interest arguments; proponents of deregulation often follow public choice and private interest arguments; and cynics and realists often follow institutional arguments. One general conclusion from these debates is worth mentioning, however: regulatory and socio-legal scholars broadly agree that, since the 1990s, we have not witnessed processes of 'pure' regulation or 'pure' deregulation, but we have often seen combinations of the two, sometimes referred to as 'reregulation' (Majone, 1990). One of the most illustrative studies on this theme is David Vogel's (1996) book Freer Markets, More Rules. This book describes how, in a variety of countries, liberalisation (and deregulation) has resulted in markets that are more heavily regulated than they were before the processes of liberalisation (and deregulation). In what follows, rather than repeating the perspectives in this section that were discussed above, it seems more interesting to touch on a few topics in regulatory scholarship that quickly become politically contentious, whether they are discussed in the pro-regulation or the pro-deregulation literature.

Deterring people into desired behaviour?

Debates about regulation and deregulation are often influenced by how people (policymakers and others) understand compliance with regulation. Two broad schools of thought stand out. On the one hand is the idea that regulatory governance can best follow a deterrence-based strategy (Kagan, 1984). Such a strategy aims to deter non-compliance prior to the law being broken (Reiss, 1984) or to impose a sanction on non-compliance after the law has been broken (Hawkins, 1984). The starting point of the strategy is that the consequences of non-compliance have to be feared by the targets of regulation (e.g. Ogus, 2002), and that the higher the chance of getting caught breaking the law and/or the greater the sanction if the law is broken, the less willing people are to break it (Coolsma & Wiering, 1999). The strategy has, however, come under considerable criticism. Its critics state that it is ineffective and expensive, brings about problems with enforcement, is aimed too much at end-of-pipe solutions, and may be subject to legalism when the proliferation of rules leads to over-regulation which may strangle competition and entrepreneurship in the market (Bardach & Kagan, 1982). On the other hand, there is the idea that many people comply with regulations because they feel a moral duty to obey (Tyler, 1990). Building on these insights, regulators use compliance-oriented strategies that encourage those features that bring about spontaneous obedience and weaken those features that bring about non-compliance by, for instance, rewarding the desired behaviour with positive incentives such as grants or subsidies (Parker, 2000). However, relying solely on compliance-oriented regulation may have its own shortcomings. For example, positive incentives work indirectly and the reaction to them might be too late; it is difficult to measure their actual effects on compliance; and public concern may arise as to why some harmful behaviour is nevertheless being accepted (Baldwin et al., 2012). Regulatory scholarship now often suggests that regulators should carefully mix different strategies. For example, combined insights about the strengths and weaknesses of deterrence-oriented and

compliance-oriented regulation led to a ground-breaking strategy: responsive regulation (Ayres & Braithwaite, 1992). This builds on the notion that rejecting deterrence-oriented regulation is naïve while total commitment to it might lead to the unnecessary use of resources. The relationship between regulator and those subject to regulation, and the regulator's ability to choose between different sanctions and rewards, is regarded as the strength of this model (Braithwaite, 2011).

Nudging people into desired behaviour?

Debates on regulation and deregulation are also strongly influenced by how people (policymakers and others) understand the broader behaviour of the targets of regulation. For a long time, regulatory governance, like many areas of policymaking and implementation, was built on rational choice theory (Bernstein, 1996), and it often still is. A central aspect of this theory is that people are rational beings who have "stable, coherent and well-defined preferences rooted in self-interest and utility maximisation that are revealed through their choices" (McMahon, 2015, 141). Insights from behavioural economics, cognitive sciences, and psychology have, however, revealed that humans often deviate from this utility model (Kahneman, 2011). Following these insights, governments around the world have since the early 2000s begun to embrace a more realistic human behaviour model through regulatory interventions informed by behavioural insights (Van der Heijden, 2019). Such interventions seek to address people's heuristics and biases, such as hyperbolic discounting and status quo bias (OECD, 2017). Whether these interventions improve the effectiveness of regulatory governance is an area of much debate. Organisations dedicated to testing regulatory interventions informed by behavioural insights, such as the Behavioural Insights Team in the United Kingdom, are actively involved in tests and (randomised control) trials to understand whether a specific intervention has the desired outcomes. They often find that the regulatory interventions they have developed are effective in changing the behaviour of those they target. When looking at the broader academic literature, however, the answer to the question 'does the use of insights from the behavioural sciences result in desirable regulatory outcomes?' is less clear-cut. Academics find that interventions building on these insights sometimes have desirable effects and sometimes do not. They stress that we lack robust evidence to make generic statements about the extent to which regulatory interventions informed by behavioural insights live up to expectations. This is a careful way in which academics are saying that, despite a large amount of research, they do not know if this approach works across the board (Baldwin, 2014). Nevertheless, the use of behavioural insights in regulatory governance often has a low cost, and, if applied on a large scale, even small improvements at the individual level may be important at the level of society.

Achieving desired behaviour through non-governmental parties and intermediaries?

A third issue that strongly affects (public policy) debates about regulation and deregulation is the question of who should do the regulating. For a long time, the almost unequivocal answer to that question was: government should be involved in the regulation of public policy objectives. Specifically, since the 1970s questions have arisen as to whether government and its bureaucratic apparatus is the most effective, efficient, accountable, and legitimate (etc.) party to develop, implement, assess, and reform regulation (Osborne & Gaebler, 1992). This questioning of whether government is in the best place to regulate has resulted in, at least, three broad suggestions. First, let the targets of regulation regulate their own behaviour (Gunningham & Rees, 1997). The assumption behind this is that the targets of regulation will always have an information advantage over public regulators. This may be about what needs to be regulated (and enforced) and why, or about what the targets of regulation

are willing to do to meet the expectations of the regulator (Short & Toffel, 2010). To prevent the targets of regulation from being given too much freedom, the regulator could introduce some requirements as to how the targets should regulate themselves – a model known as 'enforced self-regulation' (Hutter, 2001). Second, let the regulator share the responsibility for developing and implementing regulatory interventions with the targets and beneficiaries – a model known as 'co-regulation' (Levi-Faur, 2011b). The assumption here is that better regulatory interventions will be developed if the knowledge of targets and beneficiaries is actively used; that targets and beneficiaries will feel more responsible for the outcome of the regulatory intervention because they are partly responsible for it; and that targets will be more willing to comply with the intervention because they are involved in its design and implementation (Van der Heijden, 2014). The third and final suggestion is to let government outsource and contract out regulatory tasks to 'regulatory intermediaries' (Abbott, Levi-Faur, & Snidal, 2017). The assumption then is that, by embracing the skills and expertise of these intermediaries, the effectiveness and efficiency of regulatory interventions, as well as the accountability of the regulatory regime as a whole, is improved.

Regulation of regulation itself?

A fourth issue that is increasingly affecting (public policy debates) about regulation and deregulation concerns the regulation of regulation itself. For a long time, governments around the world have developed principles and guiding philosophies for the regulation of regulation - a form of metaregulation. Their ambition is to ensure that regulatory agencies across government comply with a set of coherent and consistent criteria when proposing, developing, implementing, reviewing, and terminating regulation and regulatory interventions. The United States has a long history in this regard. In the mid-1940s, for instance, it introduced the Administrative Procedure Act (APA), which was touted as a "bill of rights for the hundreds of thousands of Americans whose affairs are controlled or regulated" when introduced (as quoted in Rosenbloom & O'Leary, 1997, 45). The APA requires regulatory agencies, among others, to keep the public informed of their organisation, procedures, and rules; to provide public participation in the rulemaking process; and to establish and follow uniform (whole-of-government) standards for rulemaking and implementation. On the other side of the Atlantic, the European Commission launched its Better Regulation Agenda (BRA) in the early 2000s. Akin to the APA, the BRA is a set of requirements and expectations that should be followed by regulatory agencies at the EU level. This is to ensure that regulation is developed and implemented openly and transparently, builds on the best available evidence, is backed by stakeholders, and respects the principles of subsidiarity and proportionality (Radaelli & Meuwese, 2009). In New Zealand, a philosophy of Regulatory Stewardship has been driving regulatory reforms since the early 2010s. In addition to the principles of the APA and BRA, this guiding philosophy addresses the (base) qualifications, skills, and expertise of those working in regulatory functions (Van der Heijden, 2021). Such guiding philosophies become all the more important given the ever-growing number of regulatory agencies that seem work more and more remotely and autonomously from their 'parent' ministries (see the debates on agencification (Christensen & Laegreid, 2006)).

5 A brief conclusion

This research paper has mapped, explored, and interrogated half a decade of (academic) debates on the politics of regulation. It is by no means intended to be an exhaustive overview of all the literature on the politics of regulation. It has, however, provided a solid overview of public policy debates about what regulation can and cannot achieve, of the most dominant public policy perspectives for and against regulation, and of some of the most politically contentious questions about why to regulate, what and whom to regulate, and how to regulate.

A key lesson is that (the use of) regulation is not, per se, married to any political philosophy or orientation. Around the world, calls for more *and* for less regulation have been made by left-of-centre *as well as* right-of-centre politicians and policymakers. The same holds for the chosen type of regulation (e.g., hard law vs. soft law approaches) and the chosen approach to regulation (e.g., a coercive vs. a consensual orientation). However, regulation quickly becomes politicised when *applied* to policy areas. For example, a right-of-centre politician would probably prefer to see deregulation, soft-law approaches, and consensus-oriented compliance models in economic matters, but more regulation, hard-law approaches, and coercion-oriented compliance models in personal choice matters such as abortion and recreational drug use. A left-of-centre politician would probably prefer to see the opposite.

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