# MARKET REGULATION

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Market regulation has two complementary dimensions, one of which concerns market stability as a general mechanism for tailoring goods and services production to effective demand on the basis of prices, and the other, the protection of the public interest in specific markets such as public goods and services (Ménard and Ghertman, 2009). In both cases, the goal of regulation is to ensure the stability of systems with potentially different parameters (Canguilhem, 1974).

Regulation is a concept used not only in the social and economic sciences, but also in mechanics, where it refers to the act of fixing or adjusting the time, amount, degree or rate of something (e.g., regulation of a clock), and in biology, where it refers to the mechanism by which an early embryo maintains normal development (Dictionary and Thesaurus – Merriam-Webster Online). As witnessed by Adam Smith's expression "invisible hand," the concept of regulation in the economic sphere dates to the origin of modern economic theory. The concept was later adopted by neoclassical economists, who viewed it from the perspective of pure and perfect competition (Arrow and Debreu, 1954). From that vantage point, the market is assumed to be self-regulatory, although governments must be mobilized to introduce the conditions needed for such self-regulation, which ultimately leads to a laissez-faire approach (Polanyi, 1983). However, neoclassical theory gradually recognized that the market can be inadequate when it comes to dealing with, for example, public goods, natural monopolies, externalities and information asymmetries (Croissant and Vornetti, 2003; Touffut, 2006). Governments must then intervene for reasons of public interest in order to regulate private companies (as has often occurred in the United States) or to create state-owned enterprises (as has more frequently occurred in Europe).[1]

On a more general level, Keynes demonstrated, in the wake of the Great Depression, that achieving a balance between output and market opportunities cannot be taken for granted. For example, employment levels do not vary solely on the basis of wages (prices), contrary to the dictates of competitive regulation (which can lead to an underemployment equilibrium), but also on the basis of output levels, which in turn depend on levels of effective demand and on expectations regarding such demand (Keynes, 1936; Beaud and Dostaler, 1996). To ensure better market regulation, governments must intervene in economic activity through, for example, monetary and tax policies aimed at sustaining demand and fostering investment. The 30-year boom

[1] Regulation refers to regulations that serve not only as regulatory tools but for other purposes as well. Regulation aims to ensure the stability of systems through regulations and various other tools such as state-owned enterprises. As for deregulation, it refers to the removal of rules, restrictions and regulations. The meaning of this term is generally transparent in English-speaking countries. However, in Europe following the privatization of government corporations, "deregulation" has (somewhat confusingly) been accompanied by the introduction of regulatory controls, in a process often referred to as "reregulation."

period following World War II (1945-1975) were marked by Keynesian or Fordist regulation, which was shaped by a series of institutional mechanisms relating to currency, wage ratios, competition, global economic integration and form of government (Boyer and Saillard, 1995).

During the crisis of 1975, the Fordist mode of regulation[2] was unable to address new social demands and the problem of stagflation (inflation combined with high unemployment). The economic liberalization movement, launched under Margaret Thatcher and Ronald Reagan, once again raised the issue of regulation, although not in the sense of regulatory controls, but in the opposite sense of market self-regulation. Liberalization in turn triggered two other movements in the 1980s: a deregulation movement aimed at imposing competition in air transportation and telecommunications, and a regulation movement aimed at defending consumers' rights and controlling monopolies (Fecher and Lévesque, 2008). In addition, even after certain public service monopolies were privatized, governments had to perform certain regulatory tasks such as granting licences, controlling rates, managing disputes and ensuring access to infrastructures. These tasks were usually entrusted to independent administrative authorities, as in the electricity sector (Lanoue and Hafsi, 2010).

During the succeeding decades, communication and information technologies, coupled with low transportation costs, fostered economic globalization. However, decisions by the leaders of the most powerful states had a decisive impact in several areas, as shown by the European Union and the North American Free Trade Agreement (1994). While responding to the desires of large corporations and the major international institutions (World Bank, IMF, WTO, etc.), political leaders sought to bolster corporate competitiveness and economic growth. The latter goal was achieved, but only by creating greater social inequalities in countries due to an overly unequal distribution of wealth.

Generally speaking, trade liberalization negotiation practices are not all that transparent. Nonetheless, civil society became aware of its power with the failure of the Multilateral Agreement on Investment (MAI) and the Ministerial Conference on multilateral trade in Seattle in 1999. Although the failure of these initiatives can be explained by several factors, civil society made its mark by bringing non-market values to the fore: human rights, basic labour rights, the precautionary principle, ethical values relating to biodiversity, and sustainable development (Marre, 2000; Matouk, 2005). In addition, World Social Forums, the first of which was held in Porte Alegre in 2001 (Pleyers, 2007), fostered the emergence of world public opinion in favour of not only another form of regulation but also sustainable, solidarity-based development (Bertho, 2005; Wieviorka, 2003).

The financial sector, which was one of the most regulated areas, proposed decompartmentalizing financial activities, deregulating these activities to varying degrees depending on the country, and disintermediating banking activity in favour of market finance (the three D's). This resulted in a series of financial innovations that sparked spectacular growth in the financial sector (accounting for 40% of profits in the United States in 2007) and led to the financialization of the economy as a whole, from businesses (predominance of shareholder value) to household mortgage loans (through subprimes). However, this seemingly enviable new regime of accumulation (Boyer, 2009) proved to be highly unstable, as shown by the series of financial crises witnessed since 1987 and the crisis of 2008, which was reminiscent of the Great Depression (Aglietta and Rigot, 2009).

As regards regulation, economic globalization driven by market self-regulation has brought on a three-fold separation: a separation between society and the economy (with the economy tending to

[2] Wage ratios play a central role in the Fordist mode of regulation since they make it possible to align, at the national level, consumption standards with production standards through the sharing of productivity gains within the framework of collective bargaining for wage increases and employee benefits.

fall outside the regulation of nation-states); a separation between finance and the real economy (abandonment of certain geographical areas and activities); and, in the financial sector itself, a separation between intermediation activities, such as those performed by traditional banks, and speculative financial activities, such as hedge fund investment (Touraine, 2010). All of these separations reflect regulatory failures. During the current crisis, governments as a whole have felt the need to work together in order to prevent the collapse of the financial system. Firstly, they have agreed to inject hundreds of billions of dollars into the system through, for instance, so-called temporary nationalizations. Secondly, they have launched a global initiative aimed at defining a new approach to financial regulation. With participants agreeing to get to the root of these unsustainable trends, this initiative could lead to an overhaul of the system and thus affect the role of the various players, such as credit rating agencies, as well as regulatory tools. Opinions on this approach remain divided in various arenas, including the G20.

That said, the current crisis marks a return to regulation in a way that seems to go beyond mere regulatory control, owing to the latter's inability to ensure stability. The stakes involved in market regulation are numerous and often have no precedent. First of all, in view of how global economic regulation has become necessary, especially in the financial sector, the space of regulation and the stakeholders involved now extend beyond nation-states and large corporations; public opinion has also been pushing in that direction.

Secondly, there is now a need to regulate not only public goods, including even natural commons (e.g. water and air) and social commons (e.g. knowledge), but also economic activities as a whole owing to positive and negative externalities as well as current concerns regarding sustainable development (Ostrom, 1990). Thirdly, economic globalization presupposes a relatively shared vision of market and non-market activities and services; however, achieving such a vision is not a foregone conclusion, even within the same society. Lastly, market regulation cannot be considered the predominant issue since it corresponds to a means rather than an end in itself. Deregulation was once justified for reasons of efficiency, competitiveness, innovation and economic growth. However, the main challenge now is to achieve such goals as quality of life, the well-being of individuals and the democratization of decision-making concerning major economic issues (Stiglitz, Sen and Fitoussi, 2009).

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**HOW TO CITE** Lévesque, B. (2012). “Market Regulation,” in L. Côté and J.-F. Savard (eds.), *Encyclopedic Dictionary of Public Administration*, [online], www.dictionnaire.enap.ca

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