

## NETWORK INDUSTRIES AND REGULATORY JURISDICTION

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# Network Industries and Regulatory Jurisdiction\*

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## Abstract

This article presents new developments in the economics of federalism to analyze the determinants of specific investments in network industries and the interaction between structural and behavioral regulation. Central or federal policy making is more focused and specialized and makes it more difficult for interest groups to organize. Under some conditions, however, central powers will be associated with more underinvestment than local powers. The latter cannot afford specific regulation due to high fixed administrative costs, but may use other policy objectives as a commitment device. When technology allows the introduction of competition in some segments, the possibilities for organizing the institutional architecture of regulation expand. Liberalization will typically require institutional cooperation, but cooperation has costs and may be inhibited by distributional concerns.

## 1 Introduction

The allocation of regulatory tasks in network industries across the vertical structure of government has become a controversial issue both in

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