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REGULATION AND THE NATURAL PROGRESS OF OPULENCE

A monograph by Sam Peltzman

Sam Peltzman is a skeptic. At a time when the federal government is trying to design safety devices for every car, test every drug for efficacy, and save every endangered species, this distinguished professor of economics at the University of Chicago thinks that many of these programs are ineffective or counterproductive.

Summing up his years of pathbreaking work against government regulation in *Regulation and the Natural Progress of Opulence* (AEI Press for the AEI-Brookings Joint Center for Regulatory Studies, May 2005), Peltzman argues that many regulatory efforts have contributed little or nothing to the general public welfare, and that some have even been disastrous.

Peltzman draws his analysis from a chapter in Adam Smith's classic work, *The Wealth of Nations*, and argues that the "natural progress of opulence," embodied in the workings of the marketplace, directs people toward the ends they desire without government interference. Where government insists on taking control of this process, the results are neutral at best, counterproductive at worst. For example,

- Ralph Nader's campaign for auto safety and the subsequent founding of the National Highway Traffic Safety Administration in 1965 have led to elaborate government regulation of the design of cars. Yet the decline in highway deaths over the subsequent forty years has remained exactly the same as in the forty years before NHTSA took control.
- The Americans with Disabilities Act of 1990 was intended to promote job opportunities among the disabled. Yet the rate of employment of the disabled has actually *declined* since its adoption—probably because of the extensive legal complications that now surround hiring the handicapped.
- Only thirty-nine of the 1,300 species listed by the 1973 Endangered Species Act have been removed from the list. Landowners' fear of having their property tied up in preservation efforts has actually accelerated development.

Why do such regulatory efforts persist? “Progress can often hide the bad effects for a long time and thereby immunize the regulation,” explains Peltzman. “As long as the thing being regulated is seen to be working tolerably well—and that will often be the case in a growing economy—then the regulation is usually safe politically.” Only when the regulated activity falls apart completely—as happened with rail freight traffic under the old Interstate Commerce Commission—does the regulatory effort collapse.

Regulation and the Natural Progress of Opulence offers a pithy, well-researched counterargument to the conventional certainty that government must intervene in the economy to achieve socially desirable ends. It is a small gem of policy wisdom.

Sam Peltzman is the Ralph and Dorothy Keller Distinguished Service Professor of Economics at the Graduate School of Business, University of Chicago, where he is also the director of the George J. Stigler Center for the Study of the Economy and the State. He serves as well on the editorial boards of several academic journals and on the Council of Academic Advisers of the American Enterprise Institute. Professor Peltzman’s research has focused on issues related to the interface between the public sector and the private economy. He has made numerous contributions to the study of regulation and is the author, coauthor, or editor of several books, including *Political Participation and Government Regulation* and *The Deregulation of Network Industries: What’s Next*.

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