

The Journal of Law and Economics > Volume 31, Number 1

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Regulatory Treatment of Abandoned Property: Incentive Effects and Policy Issues

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 More

REGULATORY TREATMENT OF ABANDONED PROPERTY: INCENTIVE EFFECTS AND POLICY ISSUES*

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INTRODUCTION

RECENT cancellations of partially completed nuclear power projects have raised the issue of regulatory treatment of adverse outcomes. Goldberg pointed out the similarities between long-term private contracts and many features of public utility regulation.¹ The capital-intensive, long-lived assets of utilities cause investors and consumers to seek protection against the risk of changes in demand and costs. Goldberg terms this protection for investors and consumers, respectively, the “right to serve” and the “right to be served.” In private markets this protection is provided by long-term contracts of various forms. Goldberg describes how regulation provides similar protection and suggests that many of the problems with regulation are similar to those that arise in unregulated markets.

In a case study of cable television, Williamson compares the efficiency of regulation to that of private contracts in dealing with investments in a changing environment.² With changing circumstances and long-lived investments, parties to a private contract are apt to engage in costly recontracting. Williamson argues that regulation handles the recontracting process more efficiently than private contract: “At the risk of oversimpli-

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¹ Victor Goldberg, *Regulation and Administered Contracts*, 7 *Bell J. Econ.* 426 (1976).

² Oliver E. Williamson, *Franchise Bidding for Natural Monopolies—in General and with Respect to CATV*, 7 *Bell J. Econ.* 73 (1976).

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