

## Forum

# Industrial economic aspects of Belgian price regulation

### I. INTRODUCTION

An issue of continuing political and economic significance in Belgium concerns the desirability and the various effects of the price regulation laws. The statutes presently in force include the prior notification of price increases and price calculation contracts. Discussions of these instruments of direct price regulation have in the past largely focused on their *macroeconomic* role and effectiveness (Van Meerhaeghe (1968), Van Hecke (1976), Martens (1977)) or on the *legal* issues involved (De Vroede (1976), Favresse (1977)). Analyses of the *industrial economic* aspects of these regulations, although not absent (Westphal 1970)), are scarce.

A renewed and more comprehensive investigation of these forms of price regulation appears warranted. Any comparison between forms of *direct* or *indirect* price control must include an analysis of their economic consequences at both the level of the industry and the individual firm. The microeconomics of indirect price regulation through the promotion of competition are not completely understood, but their investigation appears to have momentum (e.g. Philip (1977)). A corresponding analysis of Belgian and other European schemes of direct price regulation is needed to fully evaluate the industrial economic effects of calculation and prior notification schemes, to understand the

economic forces supporting the continuation of price regulation and to analyze alternatives to the existing schemes.

If direct price regulation is deemed to be appropriate, the design of price regulation mechanisms to achieve the goals of *industrial* policy must be considered. In the past the form of the regulatory schemes appears primarily to have been the result of pragmatic considerations. The conception and execution of industrial policy should be based on a thorough understanding, at both a theoretical and empirical level, of the relation between the various instruments of this policy and the consequent effects on the behavior and performance of the industry. Price regulation mechanisms are instruments of industrial policy that intervene at a focal point of non-planned economies : output prices. Therefore they have an impact on economic decisions that are based on those prices and on actions affecting the prices that firms prefer. Price regulation can be expected to influence employment, profits, the choice of technology and input sources, product differentiation, productivity improvements, R & D efforts, etc...

The objective of this paper is not to present a comprehensive analysis of these matters but instead is to raise a number of issues and to stimulate interest in the study of the industrial economic aspects of price regulation mechanisms. While the discussion will be in the context of industrial sectors, much of the analysis is applicable *mutatis mutandi* to an important part of non-industrial sectors as well.

In the next section the institutional characteristics of two existing Belgian price regulation schemes are described. Reasons for the continued existence of these mechanisms are discussed in a following section, after which possible economic effects of existing schemes and more general considerations concerning the optimal design of price regulation mechanisms are examined.

## *2. A summary of two Belgian price regulation mechanisms*

The regulation of price increases through the *prior notification* procedure has, since its introduction in 1950, been the subject of 26 legislative revisions (Bourgoignie (1977)). In its present form the law requires a firm or a group of firms to submit to the Ministry of Economic Affairs a notification and justification for any intended price increase. This applies with a number of notable exceptions (for which other rules apply) to all prices of goods and services produced domestically by firms above a specified size. A less restrictive stipulation is applicable for

imports, whereas «new» products are exempt from the notification. The notification dossier submitted contains a number of information items including data on the evolution of costs and realized profits.

The notification date is followed by a lag during which the firms are not allowed to increase their price(s). At the end of this *waiting lag* firms may raise price by the notified amount if the Minister did not react or by some smaller amount «recommended» by the Minister. The lag has two purposes. First, it permits the regulatory authorities to examine the dossiers and to prepare recommendations as detailed below. Second, it is used as an instrument of macroeconomic policy and is extended or shortened to affect the rate of inflation (see Martens (1977)). Firms are not obligated to follow the Minister's recommendations regarding the maximum price, but if they choose not to, the lag can be extended by two months. If individual firms notified a price increase the Minister can moreover impose a maximum price for six months. This of course tends to increase the regulatory power of the Minister. The criteria used for the Minister's recommendations are hardly explicit and sometimes revised. Some form of mark-up regulation seems to be implicit probably in a varying degree supplemented by other political, economic and social considerations.

The notification dossiers are investigated by the *Price Administration* of the Ministry of Economic Affairs. They determine whether an advice will be sought of the *Commission for the Regulation of Prices* which is comprised of representatives of government, unions, private industry and consumers. This commission (or a permanent committee of it in case an individual firm notifies a price increase) may consult with the firm(s) involved and may seek the consult of experts. The advice of the commission — which need not be unanimous — is forwarded to the Minister, who need not follow it. Hence a lot of room is left for the administration and the Minister to apply judgment. The investigation by the administration, the (possible) advice by the commission and the criteria guiding the Minister's recommendations, are not public.

Firms are exempted from the price notification procedure if they either alone or as a group sign what can be called a *price calculation contract* («programma overeenkomst») with the Minister of Economic Affairs. The contracts allow firms to calculate new prices in an agreed upon manner, with further regulatory interference presumably limited to checks on the proper administration of the agreements. Increases in certain specified cost items can be passed on automatically into higher output prices after some small delay. Decreases in these costs must

result in price decreases. Contracts are not uniform in design and typically contain other stipulations as well (e.g. to limit resale price maintenance). Their official designation is actually misleading since the contracts are not linked in any specific way with government planning. Only a limited number of these contracts are presently in operation, their content is secret.

Characteristics of both Belgian mechanisms can be found in other European price regulation systems (Scheuer (1977)) and in the regulation of U.S. public utilities for which rate increases are subject to review by a regulatory commission, with an attendant regulatory lag, or are computed according to automatic revenue and fuel adjustment clauses (see Kahn (1971), Kendrick (1975), Baron and De Bondt (1978a)).

### *3. On the continued existence of Belgian price regulation*

Occasionally, and with varying degrees of vigour, demands or proposals have been made to abolish, or at least render «inoperative», the Belgian price regulation schemes. The most popular argument is that other industrialized and presumably comparable countries that do not use comprehensive direct price regulation but instead emphasize competition law, show superior industrial performance without enduring higher rates of inflation. This suggests that it is difficult to believe that our price regulation is maintained because there is a consensus on its superior effects on industrial performance and on macroeconomic variables.

Therefore the following question emerges : *how can the continued existence of Belgian price regulation laws be explained ?* A pertinent subquestion is : *what industries, if any, can we expect to oppose vigorously the statutes ?* The conjecture made here is that the maintained operation of price regulation results because it serves to a varying extent the interests of private industry and of union labor. This support, *ceteris paribus*, is expected to be stronger the less concentrated and labor intensive the industry is.

Before turning to this explanation and its implications, consider some other viewpoints that have been raised on the continued existence of the Belgian price regulation system. The statutes may give the representatives of government and labor unions a belief (illusion ?) that they control, or at least are better able to monitor, the actions of private industry. Another possibility is that bureaucratic interests on

the part of the regulators may prevent the abolishment of the regulatory administrations and commissions. Still another possibility is that Belgian businessmen, as good entrepreneurs and Belgians, know how to lawfully get around the price regulations without too much damage to their private interests ; that is, one does not oppose what does not harm. While these possibilities are not to be dismissed, they are of limited value in searching for a better understanding of our contemporary mixed economy. Among other things, they fail to answer the subquestion raised above.

Apparently more fundamental but wrong is the reasoning of certain leftist and consumerist muckrakers (see also Posner (1974)). Their argument is that a number of institutions in our society exist because financial powers and big business control them to promote their own private interest. An illustration of this viewpoint emerged in the recent allegation that breweries and the Ministry of Economic Affairs did not disagree on the introduction of minimum consumer prices. One commentator emphasized the private gains of big business (breweries and distribution chains), deemphasizing the gains to small distributors (Van Rijckeghem (1978)), although one may suspect that the latter benefits inspired the public officials to not disagree with the price floors. There can be little doubt that government regulation in general, and price regulation decisions in particular, have also been inspired or been dominated by the interests of small business or non-business groups, including union labor. *To understand the persistence of price regulation, we have thus to look beyond big business and financial powers.*

Another explanation of the continued existence of Belgian price regulation is a *variant* of Stigler's economic theory of regulation (Stigler (1971), Posner (1974)). This theory predicts that discontent with price regulation will be stronger the more concentrated and capital intensive the industry is. It is crucial to a proper understanding of this prediction to realize that a *tendency* is argued and that also other factors determine the interest groups' attitude towards price regulation, e.g. import competition, importance of its export activities, alternative government intervention that one might consider likely, ect. The fact that concentrated and capital intensive industries presently do not oppose price regulation is not a sufficient observation to disprove the tendency claimed.

From the point of view of the economic theory of regulation, price regulation would be expected to serve over time more and more the private interests of politically effective groups such as firms and union

labor. Firms producing similar products, though not necessarily under the same conditions, may realize that they can increase their total private benefits by agreeing on a common price. The benefits of such cooperation (which should be greater the less elastic the demand for the industry's product and the slower is new entry) do entail some direct economic costs (besides legal punishment which is largely irrelevant for the Belgian scene anyway). These costs are associated with the sellers arriving at an agreement on the price and with enforcing the often implicit cooperation agreement against non-participants and defectors. In the absence of price regulation these costs may outweigh the benefits, thus preventing price agreements to be reached at all or if reached, leading to their rapid dissolution. The existence of price regulation mechanisms can reverse such a balance by allowing a cheaper substitute to private cartelization, since regulation typically raises the benefits and lowers the costs of cooperative industry behavior. A list of supporting arguments includes the following. Industry agreement regarding a common price or price formula enhances the bargaining power to obtain a price increase or a calculation contract. The repetitiveness in preparing notification dossiers often at a sectorial level not only stimulates, but *requires*, interfirm communication on cost and other data. Communication that otherwise may be a barrier to industry cooperation receives an official rationalization under price regulation. Disagreements among industry members on a acceptable common price hardly threatens their cooperation since the responsibility for price decisions ultimately rests with the Ministry. The incentives to price cutting which always threaten the continuance of a price agreement are severely tempered by the prior notification procedure which encourages price ceilings to become price floors (Jacquemin (1977)). (Some provisions have attempted to counteract this tendency. Successfully ?). Price reductions as actions of intra-industry rivalry are discouraged by certain calculation contracts. The likelihood of defection is much smaller than it would be with a private cooperative agreement given the legal character of the contracts (one of the undersigned is the Minister of Economic Affairs) and the implications of non-compliance.

The weakest opposition to price regulation would be expected from industries where cooperation without the helping hand of government intervention is infeasible or difficult (costly). The discontent with such regulation should therefore decrease as private industry cooperation becomes more difficult, i.e. as concentration decreases, as cost struc-

tures and product characteristics become more dissimilar, as fixed costs structures and product characteristics become more dissimilar, as fixed costs increase relative to total cost, etc... (see Scherer (1971) for a discussion of the factors limiting private industry cooperation).

The interests union labor may have in price regulation or regulation in general are diverse. Especially the practice of sectorial dossiers can be seen as device to build *barriers to exit* (of firms) out of an industry and thus to assure protection of employment in the short-run. (The information flow through the Price Administration presumably is conducive to the creation of *barriers to entry* as well). The political relevance of union interest should be larger the more labor intensive the industry is.

These arguments lead to the conjecture that greater private support for price regulation would result the less the industry is concentrated and more labor intensive it is. Although this tendency does not appear unreasonable from casual observations, a scientific verification would require less simplification. The attitudes of private industry and union labor towards price regulation are also affected by other factors such as alternative government interventions that are considered likely as substitutes for or complements to this regulation, the importance of import competition and export activities, the reduction in profits and employment, etc... These elements render the detection of this relationship more difficult although they can be incorporated into the framework detailed above.

The analysis also applies *mutatis mutandi* to an important part of the non-industrial sectors. The opposition to a competition law can be understood in this context. In addition to well known reasons (among which is a disagreement on economic systems), one can expect opposition towards an effective competition law from both concentrated and unconcentrated private sectors, although for different reasons. Concentrated sectors can hardly be expected to support a law which centers on abuses of dominant positions. Any opposition they may have against price regulation is thus seriously moderated. Only «improvements» in price regulation mechanisms are asked for. The unconcentrated sectors are *in comparison* little threatened by the competition law (at least the Belgian pre-proposal) but they may fear that such a law is the beginning of the end of the favorable price regulation mechanisms.

The central conjecture was that the persistence of Belgian price regulation laws should be related to the politically effective private

interests of industries and union labor. A fair question would be : if industry and union labor are relatively satisfied with price regulation, why should there be any opposition to such mechanisms ? An economic analysis of this issue should begin with the observation that the benefits to society of price regulation (reducing the rate of inflation, private gains to industry and labor, income distribution, etc...) if they are present, may entail costs also. These costs are in Belgium and other European countries not completely understood either in terms of their theoretical or empirical relevance. Improper administration or management of the regulatory process or *political failures* are not at issue here. A potentially more relevant focus could be on the costs associated with the many-sided effects resulting from often non-apparent incentives or disincentives created by the price regulation mechanisms. These include an absence of concern for the *level* of prices and for the consumer. Attention could simultaneously go to ways of counteracting undesirable effects. These issues are elaborated on in the next sections.

#### 4. *Industrial economic effects of existing price regulation mechanisms*

A central feature of many prior-notified price increases and of price calculation contracts is that the firms may realize that they will be allowed after some waiting lag to pass on as a higher price at least some fraction of their increases in per unit production costs. Even this simple feature of Belgian price regulation may have serious economic repercussions.

A first question is whether *the delayed pass-through of cost increases dampens the firm's incentive to employ low-priced inputs in its production.*

It is important to note that this issue does not pertain to substitution of different inputs (say labor and capital) nor to the well known allegation that firms may inflate cost *accounting* data in their notification dossiers. Here we focus on the possible incentive, due to price regulation, to increase external factor prices, to switch to higher-priced varieties of input sources and to challenge less vigorously factor price increases in situations where firms possess bargaining power in relation to their suppliers. Intuitively one can roughly think of such tendencies as efforts to obtain higher prices through the promotion of increases in selected cost items.

External factor prices (for instance of fuel) need not necessarily be exogenous. An old example is the United States vs. Socony-Vacuum



Oil Co case (1940) (cited by Goldberg (1976)). Long-term contracts for gasoline set the price based on the prevailing spot market price. Industry members agreed to buy «excess» gasoline in the spot market in order to raise the spot and hence contract prices.

Both in the United States and the United Kingdom it has recently been alleged (Baron and De Bondt (1978a), Price Commission (1978) that fuel adjustment clauses encourage the purchase of higher priced input sources. (The substitutability of different inputs would normally tend to eliminate price differences, but market imperfections such as those created by government intervention can cause such differentials to persist). Fuel adjustment clauses allow electric utilities to automatically pass on to consumers increases in fuel prices according to a calculation formula. The clauses can be compared with price calculation contracts or even with prior notification price regulation when the price increases are limited to passing on changes in production cost and receive little or no scrutiny by the Belgian regulatory authorities. Baron and De Bondt (1978b) demonstrated that the incentive to employ input sources with higher real prices is present only when the production technology is characterized by decreasing returns to scale.

Price regulation mechanisms may also affect the wage bargaining between firms and unions. For example, when firms are making low profits, they may believe that the probability that they will be allowed a price increase in response to an increase in cost is high (Hendricks (1975)). This may create an incentive for firms to agree for a *higher* wage increase than might result without regulation because this may improve the chances to offset the profit loss through increased prices. A variation on this incentive may be present with firms interested in obtaining (a prolongation of) price calculation contracts.

Belgian price mechanisms may possess some features that could counteract the above-mentioned effects through a reduction of the magnitude of the pass through of cost increases or by an increase in the length of the waiting lag. Our work provides some indication that the latter feature may have more predictable results on the desired effects than the pass through.

A second question is whether the *price regulation mechanisms create an incentive for firms to bias their choice of a production technology.*

The issue of overcapitalization or the so-called Averch-Johnson effect has dominated the literature on the side-effects of U.S. public utility regulation (Averch and Johnson (1962), Kahn (1971), Bailey

1973)). Prices of U.S. public utilities can normally only be changed following a regulatory review which can be compared to the Belgian prior notification procedure. One of the many differences with the Belgian system is that in the U.S. prices are determined with the explicit regulatory requirement that firms are not allowed to earn more than a specified rate-of-return on invested capital. The Averch-Johnson thesis is that this rate-of-return regulation creates an incentive for the regulated firms to employ more capital relative to other inputs to produce any given output than is efficient. The debate on the descriptive and on the empirical relevance of this effect continues. Although not directly relevant for the Belgian regulation where rate-of-return considerations are at best present either *implicit* or as only *one* of many regulatory considerations, the Averch-Johnson proposition suggests that the Belgian regulation schemes may also produce biases in choice of technology.

Some insights on this issue emerged from our research (Baron and De Bondt 1978a)). Suppose a firm or sector anticipates an increase in the future in some factor input price (say of labor) relative to other input prices. Recognizing that increases in unit costs caused by increases in the factor prices can only be passed on as higher prices after some waiting lag, it will choose a more labor intensive technology than it would otherwise provided regulation is effective. Effective regulation means that price increases are lower than what the firm would prefer them to be. The biased choice constitutes an effort to counteract the regulatory restrictions on output price increases, since it results in larger increases in unit costs and hereby in higher prices than without such a bias. This is optimal for the firm if it is unable to obtain the desired price increases through other means. An enlargement of the waiting lag or a decrease in the pass through can be used to counteract this tendency. If new prices are calculated solely on the basis of rate-of-return considerations, however, a firm may, but need not, choose a less labor intensive technology provided that the required rate-of-return on invested capital is low. In this case an enlargement of the lag will promote the adoption of more capital intensive technologies. Our novel predictions are the *reverse* of earlier Averch-Johnson propositions. Only when the required rate-of-return is large will overcapitalization result which can be counteracted by an increased waiting lag.

These results clearly illustrate that price regulation mechanisms may create incentives for firms to adopt technologies that would not be

adopted otherwise. Choices will depend on how the firm(s) believes that it can affect output prices through its choice of technology and on other measures taken by the regulators to counter these effects. The analysis of the empirical relevance of these predictions still awaits initiation for Belgium.

A further question is whether *the waiting lag associated with the prior notification procedure does not prevent firms from maintaining financial viability and raising capital.*

A positive response is often given by the industries subject to these (and other) price regulation mechanisms (see, for instance, Federatie der chemische nijverheid van België (1977)). In the United States and some European countries this argument is sometimes used to support price calculation regulation with automatic price adjustments. Although Belgian calculation contracts are not attractive to industry (because of the price decrease clauses ?), cable television distributors recently argued along similar lines to be exempted from the prior notification procedure and to obtain a price calculation contract (Vermeulen (1976)).

There can be little argument that a long waiting lag can indeed have an adverse effect on profitability when productivity improvements do not offset increased production costs. A deteriorated profitability in turn *may* induce incentives to raise export prices, to reduce R & D activities, etc...

These adverse effects are *not* a sufficient reason to keep the waiting lag as small as possible because they could be counteracted, for instance, by granting higher output increases the larger the lag or by allowing the opportunity of a limited temporary price increase during the waiting lag. Moreover the lag has macroeconomic, administrative and possibly microeconomic functions as suggested above.

A related issue is : *what are the effects of uncertainty on the magnitude (or timing) of the allowed price increase for the prior notification mechanism ?*

Firms (or a sector) notifying a price increase *may* not know on which criteria the Minister of Economic Affairs will base his decision. The elements guiding the decisions (employment, profitability, income distribution, rate of inflation) may be changing over time and over industries both in number and ponderance and may in part depend on the relative bargaining power of the members of the Price Commission (or the permanente committee). Consequently, there may be uncertainty as the price increase that will be granted. Although there may be

advantages to the regulatory authorities and interested parties to oppose explicit and publicized criteria, one should realize that such uncertainty about government intervention may further temper the incentives for private investments (Nickell (1977)).

Finally, *price regulation mechanisms can also affect other aspects of firm behavior and decision making with respect to productivity improvements and non-price as well as price-competition.*

The prior notification regulation and the calculation formula may affect incentives to increase productivity, since cost reducing activities may be discouraged if they weaken the case for the future price increase (Kendrick (1975)). A tendency for *endogenous* cost elements to become relatively more important vis à vis *exogenous* cost items in the notification dossiers could be seen as a signal of the relevance of this side-effect. The possible counteracting force of the waiting lag (Bailey (1974)) is likely to be diminished given the frequency of the notifications.

The price regulation mechanisms may also cause firms to retain rather than pass on cost savings due to productivity gains into lower prices. Cost accounting approaches to price calculation could further stimulate this. Is it not conceivable that output prices are allowed to increase in response to an increase in some cost components, while per unit costs are actually decreasing because of an increase in demand and increasing returns to scale ? A positive answer would explain *in part* the incentive created by the mechanism for firms to advertise more than they would otherwise.

Price regulation mechanisms temper the incentives for price-competition as argued in section two, and hence non-price competition may gain in importance. Industry rivalry is however often eliminated entailing a reduction of stimuli for innovative activities. This tempering of the incentive to innovate appears less relevant the more important foreign competition is on domestic and international markets. Technological change activities may also adversely be affected by inadequate profitability if only because this retards the growth of internal funds or because it restricts or renders more costly the access to outside financing. The exclusion of «new» products from the notification requirement may create incentives for trivial product chances and waste of resources. Research is clearly needed to determine how alterations to price regulation mechanisms may be made to counteract undesirable impacts on non-price competition.

### 5. *The design of price regulation mechanisms*

The design problem can be stated as follows : to choose a price regulation mechanism that retards price increases in accord with the objectives of industrial policy recognizing that the mechanism itself will affect industry and firm behavior and performance. The emphasis in this section is on the dimensions of the design problem rather than on its solution.

A major difficulty in the design of regulatory mechanisms involves specifying operationally acceptable goals of industrial policy. The essence of this difficulty may be viewed as finding a *weighting* between possible objectives such as the maximization of employment, the assurance of an adequate rate-of-return on invested capital, and the minimization of the level of prices. The Belgian regulators use an (implicit) weighting which is more complex, sometimes changing, and certainly unknown to the researcher because of the secrecy of the regulatory investigations and deliberations. One may wonder whether their ponderations are not biased towards myopic private industry and union labor interest.

At present maximization of employment in the short-run would appear to be an overriding concern to the Belgian price regulators. In the United States the objectives of regulation have recently moved strongly towards the minimization of prices (maximization of consumer surplus) subject to profitability constraints to assure rate-of-returns on invested capital. It is not clear whether it would be appropriate to adopt such an objective in Belgium, since what is good for a market economy is not necessarily good for a mixed market economy. A larger emphasis on the minimization of prices would nevertheless be reasonable, particularly since consumers are likely to be less well organized than are industry or labor groups and hence less effective in bringing pressure to bear on the regulatory process. *The objective of minimizing prices is not equivalent to limiting price increases, since the latter may be zero while the level of prices may still be too high.* An overriding macroeconomic policy view, a domination of price regulation authorities by private industry and union labor interests, not to mention the argument that distribution and not production causes high consumer prices must have resulted in a diminished concern for the fact that for *some firms* or *sectors* the level of prices is unreasonably high. In some cases one eventually learns about excessive prices from the emergence of import competition, but in other sectors with important barriers to entry such

competition may not occur. A lack of emphasis on the microeconomic appropriate level of prices and costs aggravates some of the incentives discussed earlier (for instance to search for cost reducing techniques) and has well known detrimental effects on the allocation of resources and employment in the long-run. The objectives of industrial (or any sectorial) policy should *include* the minimization of the prices. A micro-economization of economic policy is vacuous otherwise.

Theoretical and applied research on the design of price regulation mechanisms is possible given explicit criteria of industrial policy and availability of data. Methodologically this can be approached using the framework of agency models (see Baron and De Bondt (1978c) and Goldberg (1976)). The broad perspectives of this research are the following. Textbook economics essentially deals with the incentives created by the operation of the market system. *The problem is that such insights become increasingly less relevant as we move to a more mixed economy since government interventions, such as price regulation mechanisms, weaken the market forces and replace the market incentives with systems that often have unknown or unexplored incentive properties.* A study of the alternative incentive systems taking into account institutional and other constraints must precede their comparison with the market mechanism.

Less fundamental approaches are also possible and may give more immediate results. To avoid a deadlock involved in formulating explicit criteria for industrial policy it may be better to attempt to agree on a number of principles that acceptable price regulation mechanisms should possess. For example, such principles might include incentives for productivity increases, encouragement of price competition, and incentives that would stimulate innovative activities and minimize the inefficient choice of technology and wasteful non-price competition.

## 6. Summary

This paper has attempted to refocus the discussion of Belgian price regulation from the marcoeconomic level to the industrial economic level. It was conjectured that the continued existence of Belgian price regulation may well be explained by microeconomic instead of marcoeconomic considerations. The statues may not only be in the interest of the government but also in the private interests of industry and union labor and this more so, *ceteris paribus*, the less concentrated and more labor intensive the industry is. The most basic aspects of the price

regulation mechanisms may create new incentives which can add to the private and social costs of these regulatory instruments and ought, therefore, to be carefully evaluated and investigated. Some aspects of the design problem associated with price regulation mechanisms were identified. Such a design could be guided by acceptable goals of industrial policy or at least by agreement on desirable incentive properties. A refocus of price regulation in particular and government intervention in general at the industrial and microeconomic level appears warranted with a renewed emphasis on the appropriate level of producer and consumer prices.

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