

# Drawing lessons from across the pond: the fungibility of US and British telephone regulation

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## English

During the last two decades there has been an increasing amount of attention within policy studies to 'lesson-drawing' – a process through which governmental jurisdictions formulate policy by learning from the experiences of political actors in other times and places. While a substantial body of theoretical literature has been generated on the topic, insufficient attention has been paid to issues of 'fungibility' or adaptability of lessons from one context to another. The purpose of this article is to begin to fill in this gap in the literature by adapting and testing several fungibility hypotheses posited by Rose (1993) against a case study of US telephone rate regulation.

## Français

Pendant les vingt dernières années on a fait de plus en plus attention, dans le cadre d'études de politiques, à "tirer des leçons" – un processus à l'aide duquel les juridictions gouvernementales formulent des politiques en tirant des leçons des expériences d'acteurs politiques dans d'autres temps et d'autres endroits. Bien qu'une vaste littérature théorique sur le sujet ait été générée, on n'a pas fait suffisamment attention aux problèmes de « fongibilité » ou d'adaptabilité de leçons d'un contexte à un autre. Le but de cet article est de commencer à combler cette lacune dans la littérature en adaptant et en testant plusieurs hypothèses de fongibilité avancées par Rose (1993) par rapport à une étude de cas sur la régulation de tarifs téléphoniques aux Etats-Unis.

## Español

En las últimas dos décadas ha habido un aumento en la cantidad de atención dentro de los estudios políticos de "lesson-drawing" – un proceso en el que las jurisdicciones gubernamentales formulan la política aprendiendo de las experiencias de actores políticos en otros lugares y otras fechas. Mientras que un cuerpo sustancial de estudios teóricos se ha generado acerca del tópico, se ha prestado poca atención a asuntos de "movimiento" o a la adaptabilidad de las lecciones de un contexto a otro. El propósito de este artículo es empezar a rellenar este hueco en los estudios adaptando y probando varias hipótesis de movimiento postuladas por Rose (1993) contra un caso de estudios del precio de regulación de los teléfonos en los Estados Unidos.

**Key words:** lesson drawing • telephone • communications • regulation

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## Introduction

During the last two decades policy scholars have increasingly become interested in studying the phenomenon known as ‘policy transfer’ (Bennett, 1992; Dolowitz and Marsh, 1996). Policy transfer, broadly defined, involves the transfer of programmes, policy instruments and institutions within and between government jurisdictions. Of particular importance within this literature has been the notion of ‘lesson-drawing’, which asserts that voluntary policy transfers are the result of a process of social learning through which policy makers draw on experience – both their own and that of decision makers in other jurisdictions – to fashion solutions to ongoing policy problems (Rose, 1991, 1993).

The theoretical literature in this area has generated some important hypotheses regarding the technical and political aspects of lesson-drawing. In particular, past scholarship has noted that lesson-drawing is an integral component of the policy formulation stage, where policy entrepreneurs recognise dissatisfaction with previous policies and engage in a search for viable solutions to perceived problems (Robertson and Waltman, 1992; Rose, 1993; Evans and Davies, 1999). Additional scholarship has also demonstrated that lesson-drawing occurs at the policy adoption stage, during which lessons are used as part of a rhetorical strategy to advance or impede policy change (Robertson, 1991). Still largely unexplored, however, are the conditions that surround the ‘fungibility’ or adaptability of lessons across time and space. Rose (1993) elevated the issue of fungibility by offering a series of hypotheses regarding the circumstances under which lessons are likely to gain adoption. While these hypotheses have been reiterated as important considerations by other authors, they have seldom been mentioned as more than “a basis for future empirical research” (Dolowitz and Marsh, 1996: 353).

The purpose of this article is to further the lesson-drawing literature by refining and testing several of Rose’s fungibility hypotheses against a case from the history of US telecommunications regulation. During the late 1980s, policy makers in the US Federal Communications Commission (FCC) drew on lessons learned from the British experience to replace the rate-of-return method of telephone rate regulation with a system of price caps incentive regulation. The FCC’s price caps decision offers an instructive empirical test not only because of its significance as a policy initiative, but also because it is a prominent example of lesson-drawing that can be thoroughly traced through government documents, trade publications and secondary sources. Following a presentation of the theory and the empirical evidence, some general conclusions are drawn.

## Lesson-drawing and the policy process

According to Rose (1991, 1993), ‘lesson-drawing’ is one of the most important mechanisms through which policy ideas are transferred. Rose defines a lesson as “knowledge that is instructive, a conclusion about a subject drawn after the fact from observation or experience” (1991: 7). In many instances, ideology and professional norms shape the way policy makers interpret experiences. Nevertheless,

experience reassures policy makers regarding the feasibility of a particular course of action, both in terms of its practicality and political salience.

Lessons may either be drawn from the past experiences of policy makers and their organisations or from the experiences of actors in other jurisdictions, particularly those in other political systems. Often when a problem arises, decision makers search the past experiences of their organisation in an effort to link previously successful patterns of action to current problems (Rose, 1991: 13). Learning from past experience is a particularly useful way for policy makers to make relatively minor adjustments in existing policy instruments, such as varying spending levels from one year to the next or adjusting rate structures for regulated utilities. Occasionally, however, policy makers draw on past experience by taking a policy instrument developed for a completely different purpose and applying it to a new situation. This second scenario is most likely to occur when policy makers draw conceptual analogies between previous problems and the current situation.

At other times, however, situations emerge that are completely unprecedented and no pre-existing pattern of action seems to fit. In these instances, policy makers often turn to the experiences of intellectuals and decision makers in other cities, states, or nations that are engaged in similar problems. This second type of lesson-drawing takes place through such venues as hearings, professional conferences, scholarly and trade journals and informal contacts. These policy transfers may include simply copying verbatim a policy already in place in another jurisdiction, synthesising components of programmes in place in two or more jurisdictions, or using a programme from another region as the intellectual inspiration for the creation of an analogous policy (Rose, 1991: 19–24).

Lessons may be drawn by any number of different political actors including legislators, civil servants, interest group leaders and academics. A particular lesson is most likely to receive public attention, however, when a policy entrepreneur takes up the cause. Through a lifetime of experience in positions of influence within a given issue area, policy entrepreneurs possess both the technical expertise and political prominence necessary to build support for a lesson (Rose, 1993; Kingdon, 1995). Through a combination of policy analysis and carefully constructed rhetoric, the policy entrepreneur uses formal policy-making venues and personal relationships to bring a particular lesson to political prominence. In doing so, lessons may be articulated in the form of 'narrative' stories in which the policy entrepreneur advances change as an antidote to an untenable situation (Majone, 1989; Stone, 1997).

When advancing a particular lesson through the political process, the policy entrepreneur must pay particular attention to the 'fungibility', or political and technical adaptability of the lesson. Rose (1993: 118–42) has examined the issue at length, developing a series of seven hypotheses aimed at determining the fungibility of lessons. Several of these hypotheses are refined and adapted below for the purpose of empirical testing. Generally speaking, the preconditions to successful lesson-drawing include:

- claims to institutional authority;
- values similarities across time and space;
- programme complexity;

- scale of change; and
- resource equivalence.

### *Claims to institutional authority*

Before a programme can successfully be transferred, the government or institution in question must possess the legal authority to do so. Legislatures and chief executives must make sure their actions are constitutional. In cases where policy-making authority has been delegated to an administrative agency, statutory boundaries must not be overstepped. Questions of institutional authority become particularly important when relatively new lessons are drawn from the experiences of other nations or legal jurisdictions. When the legal systems of two jurisdictions differ significantly, the transfer of programmes between them may be difficult or impossible. Vague constitutional and statutory provisions further complicate questions of institutional authority by leaving lessons open to legal challenges by political opponents. Thus, *lessons are most fungible when policy entrepreneurs and institutional leaders can demonstrate that they are consistent with established patterns of institutional action within the transferring jurisdiction.*

### *Values similarities across time and space*

Lessons are most fungible when they are drawn from jurisdictions with similar political values (Rose, 1993). Within a state or nation, there may be a dominant values system that limits the range of acceptable policy options for achieving such broad social goals as peace, prosperity and social equity. For instance in the US, where private markets were traditionally favoured over government intervention, socialised medicine and the nationalisation of infrastructure industries were rejected as policy options at a time when many European nations were moving in this direction (Hartz, 1955; Morone, 1990). Differences in political culture have also been advanced as an explanation for the disparities between the US states in the scope and funding of many public programmes (Elazar, 1966; Hanson, 1994). Thus, as Robertson (1991) notes, there may be a kind of values exclusivity to lesson-drawing in which jurisdictions adopt only the lessons that are most consistent with their overarching values system.

The existence of a favourable values system, however, does not preclude the possibility of political conflict on any given policy issue. In some instances, the dominant values system may be shared by only a narrow majority or even a minority that gains control as a result of majority complacency (Schattschneider, 1960; Baumgartner and Jones, 1993). Thus, the success or failure of a particular lesson may depend on who is in control of political institutions at any given point in time. Policy entrepreneurs may choose to advocate lessons that are consistent with their personal interests or intellectual commitments, but run afoul of the prevailing views of those who control political institutions. In these instances, those who oppose the policy entrepreneur's programme may counter with lessons of their own that draw a very different interpretation of the situation (Robertson, 1991).

Given the likelihood of these political obstacles, *lessons are most fungible when they are understood to be consistent with existing political values and policy commitments by those who control policy-making institutions.*

### Programme complexity

Again, following Rose (1993: 131–5), *lessons are most fungible when their cause and effect structure is simple and easily articulated to policy makers.* Programmes that have numerous or competing goals are much more likely to create uncertainty and political conflict than those with a single goal. In addition, when goals are not clearly defined and widely agreed upon, empirical measurement of programme success or failure may prove difficult. Finally, when the effects of a programme cannot easily be predicted or controlled, there is a risk of ‘externalities’, or unintended consequences. To overcome the uncertainties associated with programme complexity, policy entrepreneurs and institutional leaders construct analytical narratives that clarify the cause and effect structure. An analytical narrative of this kind reassures policy makers and potential opponents that the proposed programme will produce desirable results. This is most easily accomplished when data exists that confirms the success of the proposed programme in another time or place.

### Scale of change

Lessons that call for marginal changes in existing programmes are almost always more easily justified than those that lead to broad-based change (Lindblom, 1959). Lessons from past experience that are simply used to adjust existing programmes are less likely to upset established policy commitments and political bargains. By contrast, lessons that are employed for the purpose of innovation, particularly those drawn from other nations, may be accompanied by uncertainty, which can lead to the type of political conflict discussed above. Therefore, following Rose (1993: 135), *the smaller the scale of perceived change resulting from the adoption of a lesson, the more fungible the lesson.*

### Resource equivalence

Finally, in order for lessons to be fungible, there must be resource equivalence across the transferring jurisdictions. While the claims to legal and institutional authority discussed above may be one type of ‘resource’ jurisdictions might share (Rose, 1993: 127–30), financial resources are an equally important prerequisite to successful policy transfer. Whenever spending is a necessary component of programme implementation, governments must possess the taxable resources and the political will to undertake such measures. As noted above, resource allocation decisions within a jurisdiction are closely tied to prevailing political values. Thus, the simple fact that two jurisdictions differ significantly in terms of their taxable

resources does not guarantee that policies will not be transferred between them. Nevertheless, *where spending is an important component of a programme, equivalence of taxable resources among jurisdictions may be a prerequisite to lesson-drawing* as policy makers seek out the solutions that are the most politically and financially feasible.

Thus, successful lesson-drawing depends on the ability of policy entrepreneurs to demonstrate successfully the fungibility of lessons. In the remainder of the article, the five fungibility hypotheses presented above are tested against evidence from the case of US telephone rate regulation during the late 1980s.

## The case of US telephone rate regulation

When public utility regulation was first employed in the US at the turn of the 20th century, it was based on the theory that telephony, electricity and transportation were natural monopolies – goods and services that were most efficiently provided by a single firm. Lacking effective competition or any other constraint on their business practices, monopolies had a tendency to maximise their profits by charging the highest prices possible. Since public utilities were ‘essential’ services on which the well-being of the entire society depended, demand for them was inelastic and the potential for price gouging existed. For early 20th-century reformers, government regulation was viewed as a way to make sure that public utility industries remained financially viable while keeping their prices and profits at levels consistent with healthy market competition (Skowronek, 1982; Eisner, 1993).

In the case of the telephone industry, the authority to regulate interstate rates was delegated to the FCC under the Communications Act of 1934. For more than 50 years after its inception, the FCC’s rate-setting efforts centred around using accounting data to find an appropriate profit level for the American Telephone and Telegraph Company (AT&T). Perhaps the most systematic approach to profit setting during this time was the FCC’s application of rate-of-return regulation between 1967 and 1989. Under a rigorous application of the rate-of-return methodology, regulators used accounting procedures to establish a dollar value for the firm’s operating costs or ‘rate base’. Regulators then established a fair ‘rate-of-return’ or profit ceiling that was sufficient to not only recover the rate base, but also to ensure that the firm could expand its operations. Once the overall rate-of-return was established, the regulated firm then had a lot of freedom to set prices for individual services as long as profits did not exceed the prescribed level (FCC, 1967; Phillips, 1985; Henck and Strassburg, 1988).

During the late 1980s, however, the FCC became dissatisfied with profit regulation and decided to replace it with a system known as ‘price caps’ regulation, first tried in Britain only a few years earlier. The success of policy entrepreneurs in adapting price caps to the US context is best understood by turning to the issues of fungibility discussed above.

## Claims to institutional authority

Before price caps could be adopted within the US, regulators at the FCC needed to demonstrate that they had the institutional authority to undertake such a policy change. Under Title II, section 205 of the Communications Act of 1934, the FCC was delegated the power to prescribe “just and reasonable” rates for interstate telecommunications services. While no specific style of rate regulation was mandated by the Communications Act, profit regulation was the predominant method in other public utility industries by the 1930s and was initially adopted by the FCC with little debate (FCC, 1967; Phillips, 1985; Henck and Strassburg, 1988). Given the long history of using profit-based methodologies in public utility regulation, critics of price caps could potentially argue that such a methodology was implied by the language of the Communications Act.

In anticipation of these assertions, staff within the FCC’s Office of Plans and Policy released a legal analysis arguing that Congress had provided the agency with a broad grant of authority that did not dictate a particular style of regulation (Levitz, 1987). With this legal analysis in hand, staff at the FCC believed they could move forward with the price caps plan unless Congress specifically forbade it through additional legislation<sup>1</sup>. The prospect of legislation, however, meant that that FCC was far from autonomous in its institutional prerogatives. If political mobilisation against the plan occurred, agency officials needed to be prepared to justify their actions and engage in political bargaining.

## Values similarities

Price caps regulation was adopted in Britain and the US at a time when both countries were controlled by conservative governments that sought to reduce state interference in the economy. In Britain, price caps regulation was implemented while British Telecom, the once publicly owned telephone monopoly, was being converted into a privately held competitive enterprise (Hills, 1986; Newman, 1986; Duch, 1991). Rate regulation of British Telecom was deemed necessary to ensure that the firm did not use its substantial market power to drive competitors out of business. To this end, British economist Stephen Littlechild was commissioned to recommend an appropriate system of regulation.

As a microeconomist, Littlechild was aware of academic studies criticising profit-based public utility regulation in the US context. American economists had theorised for over two decades that profit regulation led to economic inefficiency and provided firms with an incentive to engage in cross-subsidisation and other forms of anti-competitive behaviour (Averch and Johnson, 1962). These theoretical predictions took on real world significance when they were used as the basis for an antitrust settlement in which AT&T was broken up into eight separate companies in 1982 (Stone, 1989; Noll and Owen, 1994). Citing these arguments in his report, Littlechild contended that these same patterns of inefficiency and anti-competitive behaviour would probably be repeated in the British context if profit regulation was implemented (Littlechild, 1983: 17–18).

Instead, Littlechild advanced the price caps model precisely because it appeared

to be an antidote to the problems of inefficiency and anti-competitive behavior. By capping prices and allowing them to rise by a factor of less than inflation, regulators provided firms with an incentive to reduce the costs of production. Because there was no longer a profit ceiling, all additional savings resulting from cost reductions were retained by the firm. Furthermore, because telecommunications services were separated into distinct price 'baskets' and prices were gradually being pushed toward marginal cost by the caps, the opportunities for cost shifting and other anti-competitive activities were reduced (Littlechild, 1983: 36). Following Littlechild's recommendations, price caps regulation was codified in the British Telecommunications Act of 1984.

In the years immediately surrounding the British privatisation efforts, American policy makers were considering proposals to 'deregulate' numerous infrastructure industries. During the late 1970s, the US Congress passed legislation phasing out all price and entry regulation of the airlines industry and partially deregulating the surface transportation and banking industries (Derthick and Quirk, 1985). While similar legislative attempts to deregulate telecommunications failed in Congress, by the early 1980s the FCC was using its broad legislative mandate to reconsider many regulatory initiatives (Webbink, 1981).

At the centre of the FCC's efforts was a challenge quite similar to that faced by British regulators – how to regulate a former monopoly as the transition was being made to competitive markets. After becoming aware of the British price caps experiment through a trade journal article, FCC economists John Haring and Evan Kwerel proposed an adaptation of the methodology in a report published in August 1987 (Haring and Kwerel, 1987). Later that year, the price caps proposal won the favour of FCC Chairman Dennis Patrick, a member of the Republican Party appointed by President Ronald Reagan to head the agency. Acting as a kind of policy entrepreneur, Patrick used the Littlechild study as the basis for moving forward with the implementation of a price caps framework for the regulation of AT&T (FCC, 1987; Brock, 1994).

## Programme complexity and scale of change

As Patrick and the FCC staff moved forward with the implementation of the price caps plan, political opposition began to build among numerous interest groups and members of the majority Democratic Party in Congress. While the goals of rate regulation – marketplace efficiency, innovation, and widespread access to service – were generally agreed upon, there was some disagreement as to which goals were more important. As noted above, FCC regulators tended to emphasise the efficient allocation of marketplace resources, thus supporting price caps. In their view, marketplace efficiency would naturally lead to lower prices, which would make telecommunications services widely available. Elected officials, by contrast, seemed more willing to tolerate some marketplace inefficiency overall as long as residential rates remained low. Because rates had remained fairly stable in recent history, elected officials drew a much more positive set of lessons from their own experience with rate-of-return regulation.

Overall, some members of Congress viewed the proposed implementation of



price caps as a dramatic departure from existing policy. Furthermore, price caps remained largely untested since it had only been implemented in Britain three years earlier. Shortly after the price caps proposal was made public, both houses of Congress held investigative hearings and threatened to pass legislation aimed at blocking the initiative. As Representative Edward J. Markey, Chairman of the House Subcommittee on Telecommunications and Finance, noted in a hearing held in late 1987:

In light of the fact that under the existing regulation, the United States has developed the best telecommunications system in the world and the cost of telephone service had (sic) declined by 60% in real dollars, the first task is to justify the reasons for implementing this untested proposal at this time of uncertainty and transition in the telecommunications marketplace ... [W]e must be assured that consumers will realize the benefits of lower phone prices and that our high quality service will remain intact ... [J]ettisoning proven programs on untested concepts is not my idea of forward looking policy. (US Congress, 1987: 2)

Prominent Democratic leaders in Congress including House Energy and Commerce Committee Chair John Dingell and Senate Communications Subcommittee Chair Daniel Inouye would later express support for Markey's views in other venues (Buckley and Wilson, 1987).

Following statements by Markey and other committee members, Dennis Patrick testified in favour of the price caps proposal, emphasising the efficiency views held by many FCC economists:

Price caps would encourage carriers to cut costs, innovate, and to realize efficiencies and would reduce carriers' incentives and ability to cross-subsidise ... At the same time ... the price cap plan will put consumers in a better position than they are today (sic). For residential consumers ... rates will be lower in real dollar terms than they likely would have been under rate-of-return. (US Congress, 1987: 10–12)

In essence, Patrick reiterated the importance of controlling inefficiencies and anti-competitive behaviour, while at the same time attempting to reassure members of Congress that price caps regulation was the best way to continue maximising consumer welfare.

In spite of Patrick's rhetorical appeal, consumer groups and other organised interests drew lessons from past experience that paralleled the concerns of Congressional leaders. Indicative of these views was a statement made by Gene Kimmelman, legislative director of the Consumer Federation of America:

Now, we urge you to look carefully at the record of rate of return regulation. It is a fabulous record ... Look at innovation in telecommunications; it surpasses almost every other industry. Look at research and development beyond most every other industry. Capital investment surpasses almost every other industry. Stable earning performance through the twentieth century

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and most important to the people who I'm worried about, declining real prices for consumers in this country [sic]. (US Congress, 1987: 282)

Other interest groups expressed additional concerns regarding the price caps proposal. The National Association of Regulatory Utility Commissioners expressed concerns that price caps regulation might lead to deterioration in the overall quality of long-distance telephone service (US Congress, 1987: 457–8). MCI, one of AT&T's major competitors, also raised concerns that the application of price caps regulation in some contexts could actually lead to higher consumer prices (US Congress, 1987: 644–6). Overall, most witnesses expressed uncertainty and, in some instances, outright opposition to the FCC's price caps plan.

Democratic leaders in Congress interpreted the hearings to mean that more information was needed before the price caps plan could move forward. Democrats requested that the FCC publish a more detailed version of the price caps plan and solicit additional public comment on the proposal before implementation (Ferejohn and Shipan, 1989: 309). In addition, Senator Inouye requested that the FCC staff conduct a computer simulation to estimate the long-term impact of price caps on consumer prices (Brock, 1994).

Congressional objections to the price caps proposal needed to be taken seriously. Although the FCC was structured as an independent commission with wide discretion, Congress could overturn the price caps plan through legislation. Furthermore the FCC, normally a five-member body, consisted at the time of only three commissioners, two of whom were Democrats. Under commission procedures, if either Democratic commissioner chose to withhold action on the price caps proposal, it could not be passed. Fearing that pressure from Congressional leaders might have an influence on the Democratic commissioners, Patrick and the FCC staff postponed implementation of price caps and made efforts to assuage their critics (Brock, 1994).

In May 1988, the FCC published a more fully developed price caps plan and solicited public comments regarding additional ways to protect consumer prices (FCC, 1988). In addition, questions from Congressional leaders were answered in writing (US Congress, 1987: 431–45; US Congress, 1989: 61–112) and the computer simulation requested by Senator Inouye was completed (Brock, 1994). Finally, Patrick agreed to delay issuing a final implementation order until March 1989 to give Congressional leaders more time to study the matter (Mason, 1989).

During hearings held in February of 1989, many Congressional leaders continued to express uncertainty regarding the price caps plan. In his oral testimony, Patrick attempted to allay their fears, presenting the computer simulation and other evidence suggesting that consumer prices would be lower under price caps (US Congress, 1989: 26–30). As a result of the hearings and additional private meetings, Patrick and the FCC staff were able to negotiate cosmetic changes to the price caps plan that satisfied Congressional leaders (Brock, 1994: 278–9). With these changes in place, the AT&T price caps plan was made official in an order issued by the FCC on 16 March (FCC, 1989). In September 1990, the FCC also finalised a variation of price caps for the regulation of interstate access charges (FCC, 1990).

## Resource equivalence

Resources did not seem to be an obstacle to the implementation of price caps regulation. The FCC had already made resource commitments to telephone regulation roughly equivalent to those in place in Britain at the time. If anything, the price caps model was portrayed as a way for the agency to work more effectively within its resource limits. Profit regulation involved the valuation of the firm's rate base, which required a commitment of personnel hours to review extensive accounting data. Under price caps, these kinds of resource commitments would be made periodically at best. Prices would rise at automatic levels, with the impetus placed on the firm to cut costs and earn a profit. Thus, resources were a peripheral concern at best (US Congress, 1987, 1989).

## Conclusion

As the foregoing analysis demonstrates, the efforts of the FCC staff to replace profit regulation with price caps depended on their ability to convince others that the lesson was fungible to the US context. To recap, the data from the case study was used to test the five hypotheses stated above:

*Claims to institutional authority:* In the US context, where a written constitution binds legislators and vague grants of statutory authority empower administrative decision makers, claims of institutional authority will be an ongoing controversy. While the FCC did demonstrate a broad grant of authority in this instance, it was still possible for Congress to overturn the agency's decision through legislation. Furthermore, Democrats dominated the FCC at the time, making it impossible for Chairman Patrick to act autonomously. For these reasons, Patrick needed to convince his critics that the price caps proposal represented a sound policy choice.

*Values similarities:* The price caps proposal seemed like a sound policy choice because it fitted nicely with the market-oriented values that dominated discussions of infrastructure regulation in both the US and Britain at the time. Furthermore, it originated in Britain at a time when regulators in that country faced challenges not unlike those confronted by their US counterparts – how to regulate a privately owned telephone industry that was slowly making the transition from monopoly to competition. Through channels of professional expertise, the price caps idea found its way from the British experience into discussions over rate regulation in the US.

*Programme complexity:* Once Patrick and the FCC staff moved forward with the price caps proposal, they faced the task of assuaging critics in part because of the complexity of the programme. To be politically viable, a system of public utility rate regulation needed to balance the goals of economic efficiency and widespread access to service through low consumer prices. While these goals were by no means incompatible, the general lack of information about the price caps methodology made it difficult to assess fully the likely outcomes of policy change.

Because price caps had only been implemented in Britain a few years earlier, there was little reliable policy analysis that could be used to make the case that it would truly lead to greater efficiency and lower consumer prices. Lacking good information about the likely impact of policy change on consumer prices, Democrats in Congress were attracted to a set of lessons advanced by organised interests that portrayed profit regulation as a success because the vast majority of consumers had access to telecommunications services at rates they could afford.

*Scale of change:* The issues of programme complexity were exacerbated by the perceived scale of policy change. Price caps regulation was viewed by elected officials and numerous interest groups as a dramatic departure from existing policy commitments. Given the general uncertainties brought about by the lack of policy analysis, the perceived scale of change proved to be another obstacle Patrick and the FCC staff had to overcome.

*Resource equivalence:* As noted above, price caps proved perfectly fungible given existing resource commitments. Issues of cost did not dominate the discussions over price caps, nor did they appear to be a major obstacle to its implementation.

In conclusion, the five hypotheses appear to have explanatory power in the case of price caps regulation. Although it is difficult to generalise from the findings of a single case, the evidence presented in this article helps to bolster the work of Rose (1993), Robertson (1991) and others who have attempted to draw generalisations regarding the fungibility of lessons. As international lesson-drawing has become more prevalent in a variety of policy areas in recent decades, further theoretical and empirical investigation of fungibility issues will be an important component of scholarly agendas aimed at understanding the causal factors surrounding this phenomenon.

## Note

<sup>1</sup> American courts tend to defer to agencies in matters of statutory interpretation unless Congress has dealt with the “precise question at issue”. See the case of *Chevron USA, Inc. v NRDC*, 467 US 836 (1984).

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