inefficiently large public-pension scheme, if altruism towards the parents is relatively weak. This is the same result as in chap. 4 and as Hansson and Stuart obtained in their 1989-paper. The intuition of the Hansson-Stuart paper, however, is that as altruism toward generations further away in time is less strong than altruism towards generations nearby, it will be advantageous for the current young generation to redistribute resources away from future generations to the current old generation. In this chapter the explanation seems to be the other way around, but again an explanation is missing.

All in all, I recommend this book as a compact survey and as a possible source of inspiration for those who wish to begin research in this area. The book does not supply a fully-fledged survey of the issues at hand, though, and empirical data on the relationship between economic growth and public pensions would have enhanced the value of the book.

References


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The book’s subtitle “A New Empirical Approach to Regulation” aptly characterizes the nature and ambition of the research that it comprehensively addresses. The authors describe this research in ten concise chapters.

The introductory chapter motivates the need for the new empirical approach. This is followed by a chapter on LECOM, the engineering cost model used for the book. LECOM was one of the first so-called cost proxy models that mimic the costs of local telecommunications networks based on state-of-the-art engineering relationships and disaggregated geographic, price
and other data. In contrast to some of the other models, LECOM is based on explicit cost minimization. This chapter also characterizes the basic properties of local telecommunications networks.

Chapter 3 then describes the innovative methodological step of generating cost functions from optimization results of the LECOM model. These cost functions are the result of applying econometric estimations to a large set of pseudo data. The authors argue convincingly (in my view) that the resulting cost functions estimations are vastly superior to existing econometric estimates, when it comes to modern telecommunications networks that are subject to technical change and are generally monopolies or near monopolies. What the cost functions presented in this book do much more convincingly than other approaches is to evaluate natural monopoly properties and the hypothetical effects of competition.2 In particular, they can also deal with different types of networks built by entrants depending on whether an entrant focuses on a specific location or spreads out uniformly over a geographic area.

Chapter 4 provides a self-contained but necessarily short introduction to modern incentive regulation approaches. This chapter is great for readers who want to refresh their memory, but not extensive enough for newcomers to the area. They might require a broader and more accessible exposition.

Chapter 5 provides in-depth analyses of natural monopoly properties. The authors’ major finding is that economies of scale are more pronounced and natural monopoly in local telephone networks may be more widespread than conventional econometric cost estimates have indicated.

Chapter 6 combines the cost function estimations with optimal regulatory mechanisms. This concerns the second major innovation attempted with the research described in the book. It is the attempt to provide a quantitative application of the Bayesian approach to incentive regulation. This approach, which owes much to one of the current authors (Laffont), has provided penetrating insights about qualitative properties of welfare-maximizing regulation under asymmetric information. However, even its most ardent supporters would not claim that these insights translate into quantitative rules that regulators could readily use for applying these insights. The current research wants to develop a methodology in this direction. It does this by including proxies for adverse selection and moral hazard parameters in the cost functions and by making assumptions on the distribution of firm types, the disutility of effort and the shadow cost of

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2 For an even more comprehensive critique of econometric estimates of scale economies in local telephone networks, see Fuss and Waverman (2002).