PART THREE

Business and Public Policy

CHAPTER

Uber, a U.S.-based international transportation network company founded in 2009, developed a mobile app that allowed consumers to submit a trip request, which was then routed to one of its drivers. By 2015, the service was available in 58 countries and 300 cities worldwide. But Uber encountered serious opposition when it attempted to expand into the European Union. Anti-Uber forces claimed that the firm engaged in unfair competition and its drivers did not have professional licenses, required of all taxicab drivers. Under French law, organizing a system that put paying clients in touch with drivers without professional licenses was punishable by 2 years in prison and a €300,000 ($373,540) fine. Uber's general manager for Western Europe responded, "It's up to the courts to ban Uberpop [the French version of Uber]. If we're prosecuted, then we'll respond." The company also filed complaints with European Union regulators against three European Union governments—France, Germany, and Spain—claiming that these governments had blocked their services.

In 2011, Congress passed legislation to prevent the importation of contaminated food into the United States. About 15 percent of the food that Americans ate originated abroad, more than double the amount 10 years earlier, as did nearly two-thirds of all fresh fruits and vegetables. Recent data reported that one in six Americans became ill annually from eating contaminated food; about 130,000 people were hospitalized and 3000 died each year. In 2013, the Food and Drug Administration imposed even more restrictive rules and challenged food companies to better police imported food. American food importers were required to audit foreign facilities, test foods when arriving in the United States, and review records on foreign suppliers. Most major food importers and consumer advocates praised the new rules, but some worried that they might give companies too much discretion about whether to conduct on-site inspections where the food was grown and processed.[1]

What prompted or compelled governments to become more involved in their citizens' transportation options or the assurance of food safety? How do these government's actions affect businesses and what they are permitted to do? How did these actions affect society and its safety? Did government's involvement promote or harm companies or allow other firms to maintain their competitive advantage? Were these efforts by the governments necessary and effective, or can this only be answered in time?

Governments create the conditions that make it possible for businesses to compete in the modern economy. As shown in the opening examples, governments can act in dramatic ways to provide or limit opportunities for businesses and control business activities to better ensure the public's safety. In good times and bad, government's role is to create and enforce the laws that *balance* the relationship between business and society. Governments also hold the power to grant or refuse permission for many types of business activity. Even the largest multinational companies, which operate in dozens of countries, must obey the laws and public policies of national governments.

This chapter considers the ways in which government actions impact business through the powerful twin mechanisms of public policy and regulation. The next chapter addresses the related question of actions business may take to influence the political process.

How Business and Government Relate

The relationship between business and government is dynamic and complex. Understanding the government's authority and its relationship with business is essential for managers in developing their strategies and achieving their organization's goals.

[1] "France Blocks Uber 'Ride-Sharing' Service," *The Wall Street Journal*, December 15, 2014, *www.wsj.com;* "Uber Files Complaints Against European Governments Over Bans," *The Wall Street Journal*, April 1/, 2015, *www.wsj.com;* and, "F.D.A. Says Importers Must Audit Food Safety," *The New York Times*, July 26, 2013, *www.nytimes.com*. Files Complaints Against European Governments Over Bans," *The Wall Street Journal*, April 1, 2015, *www.wsj.com;* and, "F.D.A. Says Importers Must Audit Food Safety," *The New York Times*, July 26, 2013, *www.nytimes.com*.

constraints, which can be costly or restrict innovation. But regulations can also help business, by setting minimum standards that all firms must meet, building public confidence in the safety of a product, creating a fair playing field for competition, or creating barriers to entry to maintain a business's competitive advantage. How a specific company reacts to a specific government policy often depends on their assessment of whether they would be helped or hurt by that rule.

In short, the relationship between government and business can range from one of cooperation to one of conflict, with various stages in between. Moreover, this relationship is constantly changing. A cooperative relationship on one issue does not guarantee cooperation on another issue. The stability of a particular form of government in some countries may be quite shaky, while in other countries the form of government is static but those in power can change unexpectedly or government rulers can change on a regular basis. The business–government relationship is one that requires managers to keep a careful eye trained toward significant forces that might alter this relationship or to promote forces that may encourage a positive business–government relationship.[5]

Legitimacy Issues

When dealing with a global economy, business may encounter governments whose authority or right to be in power is questioned. Political leaders may illegally assume lawmaking or legislative power, which can become economic power over business. Elections can be rigged, or military force can be used to acquire governmental control.

Business managers may be challenged with the dilemma of doing business in such a country where their business dealings would support this illegitimate power. Sometimes, they may choose to become politically active, or refuse to do business in this country until a legitimate government is installed.

Businesses can also influence the ability of a government leader or group of leaders to maintain political power. For example, companies can decide to withdraw operations from a country, as many U.S. firms did from South Africa in the 1970s to protest the practice of apartheid (institutionalized racial segregation). Some believe that the economic isolation of South Africa contributed to the eventual collapse of the apartheid regime. Governments may also order companies not to conduct business in another country because of a war, human rights violations, or lack of a legitimate government. These orders are called *economic sanctions.* As of 2015, the United States had imposed economic sanctions on Iraq, Kuwait, Lebanon, Libya, Qatar, Saudi Arabia, Syria, the United Arab Emirates, and Yemen because of political and human rights concerns.[6]

Government's Public Policy Role

Government performs a vital and important role in modern society. Although vigorous debates occur about the proper size of programs government should undertake, most people agree that a society cannot function properly without some government activities. Citizens look to government to meet important basic needs. Foremost among these are safety and protection provided by homeland security, police, and fire departments. These are collective or public goods, which are most efficiently provided by government for everyone in a community. In today's world, governments are also expected to provide economic security and essential social services, and to deal with the most pressing social problems that require collective action, or public policy.

Public policy is a plan of action undertaken by government officials to achieve some broad purpose affecting a substantial segment of a nation's citizens. Or as the late U.S.

[5] See George Lodge, *Comparative Business–Government Relations* (Englewood Cliffs, NJ: Prentice Hall, 1990).

[6] See The Federal Registry, Department of the Treasury at *www.gpo.gov.*

The harms associated with distracted driving are alarming. A spokesperson for a major auto insurance company explained, "Distracted driving is becoming a national epidemic and it has to be controlled."[9]

Government bodies—legislatures, town councils, regulatory agencies—need to consider all relevant inputs in deciding whether or not to take action, and if so, what kind of action.

Public policy goals can be broad (e.g., full employment) and high-minded (equal opportunity for all) or narrow and self-serving. National values, such as freedom, democracy, and a fair chance for all citizens to share in economic prosperity, have led to the adoption of civil rights laws and economic assistance programs for those in need. Narrow goals that serve special interests are more apparent when nations decide how tax legislation will allocate the burden of taxes among various interests and income groups, or when public resources, such as oil exploration rights or timber cutting privileges, are given to one group or another. Whether the goals are broad or narrow, for the benefit of some or the benefit of all, most governments should ask, "What public goals are being served by this action?" For example, the rationale for a government policy to regulate distracted driving has to be based on some definition of public interest, such as preventing harm to others, including innocent drivers, passengers, and pedestrians.

> The goal of distracted driving regulation is to prevent deaths and serious injuries resulting from drivers being distracted while driving. However, some members of the public have insisted on their right to use their phones for texting and other activities in their vehicles. Traveling salespersons, for example, depend on their phones as an important tool of the job. Some regulations have addressed this by permitting drivers to use hands-free devices that permit them to keep their hands on the wheel. But some government safety experts have disagreed, saying, "When you are on a call, even if both hands are on the wheel, your head is in the call, and not your driving."

The issue of banning the use of cell phones, hand-held or hands-free, for the sake of making our roads a little safer for all, remains at the forefront, but new technology has created even greater distractions. Devices can project information and data streamed from a smartphone onto the car's windshield. Maps, speed, incoming texts, caller identification, and even social media notifications can be projected just above the dashboard of a car for the driver to read. So, the goals of saving lives, reducing injuries, and eliminating health care costs are increasingly more urgent and the demand for regulation even more critical.

Governments use different *public policy tools* to achieve policy goals. The tools of public policy involve combinations of incentives and penalties that government uses to prompt citizens, including businesses, to act in ways that achieve policy goals. Governmental regulatory powers are broad and constitute one of the most formidable instruments for accomplishing public purposes.

> Federal action limiting cell phone use in the United States stalled, so state and local governments stepped in to ban the use of cell phones by drivers while operating their vehicles. By 2015 14 states had completely banned the use of cell phones while driving without a hands-free device, 37 had banned cell phone use by novice drivers, and 20 had banned school bus drivers from using their cell phones. Forty-six states banned text messaging for all drivers. And this is not just

[9] "Texting While Driving Dangerous, Study Confirms: How Dangerous?" *CBS News - Health Pop*, October 6, 2011, *www.cbsnews.com*.

and stimulated consumption of goods and services. Today, fiscal policy remains a basic tool to achieve prosperity, as the following example illustrates.

> In 2015, Chinese government leaders and economists were surprised by the country's sharp economic decline and were increasingly worried about the potential risk of job losses throughout the country. The world's second largest economy grew at 7 percent in the first quarter of 2015, the lowest rate since the global financial crisis in 2008–9. The leaders turned to fiscal stimulus to revive the growth of the country. The National Development and Reform Commission, China's top planning agency, infused large amounts of funding in an attempt to speed up investment projects in several key sectors, including water conservation, environmental protection, power grids, and health care. A chief economist explained, "It's hard to boost consumption while external demand is weak, so the only thing they can do is boost investment."[12]

By contrast, the term **monetary policy** refers to policies that affect the supply, demand, and value of a nation's currency. The worth, or worthlessness, of a nation's currency has serious effects on business and society. It affects the buying power of money, the stability and value of savings, and the confidence of citizens and investors about the nation's future. This, in turn, affects the country's ability to borrow money from other nations and to attract private capital. In the United States, the Federal Reserve Bank—known as the Fed—plays the role of other nations' central banks. By raising and lowering the interest rates at which private banks borrow money from the government, the Fed influences the size of the nation's money supply and the value of the dollar. During the Great Recession, the Fed's action to lower interest rates nearly to zero—an example of a monetary policy—was intended to stimulate borrowing and help the economy get moving again.

Other forms of economic policy include *taxation policy* (raising or lowering taxes on business or individuals), *industrial policy* (directing economic resources toward the development of specific industries), and *trade policy* (encouraging or discouraging trade with other countries).

Social Assistance Policies

The last century produced many advances in the well-being of people across the globe. The advanced industrial nations have developed elaborate systems of social services for their citizens. Developing economies have improved key areas of social assistance (such as health care and education) and will continue to do so as their economies grow. International standards and best practices have supported these trends. Many of the **social assistance policies** that affect particular stakeholders are discussed in subsequent chapters of this book.

> One area often addressed by social assistance policies is housing. Many governments have programs that subsidize rent payments, guarantee home loans, or provide housing directly for low-income citizens or military veterans. For example, Brazil's *Minha Casa, Minha Vida* ("My House, My Life") program has built one million homes since 2009 for low-income families. Mortgages are provided by a government-affiliated bank and more than $1 trillion in investments had been channeled into this program by 2014. Many of the first units built by the program were intended to house families displaced by development for the World Cup and Olympic Games in Rio de Janeiro.[13]

[12] "China Looks to Fiscal Stimulus to Fight Slowdown," *Business Times*, May 7, 2015, *www.businesstimes.com.sg*.

[13] For more information on this program see *myhousemylifebrazil.com*.

Government Regu

> established modern health and safety requirements in mines nationwide. Government health officials attributed increasing rates of the disease to new machinery that generated more dust, longer shifts for younger workers, and an increase in silica dust churned up when thinner coal seams were tapped after many years of mining at the same location.[14]

Natural Monopolies

In some industries, **natural monopolies** occur. The electric utility industry provides an example. Once one company has built a system of poles and wires or laid miles of underground cable to supply local customers with electricity, it would be inefficient for a second company to build another system alongside the first. But once the first company has established its natural monopoly, it can then raise prices as much as it wishes because there is no competition. In such a situation, government often comes in and regulates prices and access. Other industries that sometimes develop natural monopolies include cable TV, broadband Internet service, software, and railroads.

Ethical Arguments

There is often an ethical rationale for regulation as well. As discussed in Chapter 5, for example, there is a utilitarian ethical argument in support of safe working conditions: It is costly to train and educate employees only to lose their services because of preventable accidents. There are also fairness and justice arguments for government to set standards and develop regulations to protect employees, consumers, and other stakeholders. In debates about regulation, advocates for and against regulatory proposals often use both economic and ethical arguments to support their views. Sometimes firms will agree to self-regulate their actions to head off more costly government-imposed regulatory reform, as shown in the following example.

> The National Highway Traffic Safety Administration (NHTSA) decided to launch an investigation after two Tesla Motors cars hit debris on the road, leading to a battery fire in 2013. The first incident occurred when the car struck a metal object on the highway; the second one, when the car hit a tow hitch lying on the road. Immediately after the NHTSA's announcement, Tesla Motors announced that it was conducting its own investigation and would implement certain safety measures aimed at creating more ground clearance in their cars and would extend its warranty policy to cover vehicles damaged by fire.[15]

Whether the actions are self-imposed by a company or forced on businesses by the government, the protection of the public is often the motivation for regulatory action.

Types of Regulation

Government regulations come in different forms. Some are directly imposed; others are more indirect. Some are aimed at a specific industry (e.g., banking); others, such as those dealing with job discrimination or pollution, apply to all industries. Some have been in existence for a long time—for example, the Food and Drug Act was passed in 1906—whereas others, such as the Wall Street Reform and Consumer Protection (or Dodd-Frank) Act of 2010, are of much more recent vintage. Just as public policy can be classified as either economic or social, so regulations can be classified in the same fashion.

[14] "Black Lung Disease Spurs New Coal-Mine Rules," *The Wall Street Journal*, April 23, 2014, *online.wsj.com*.

[15] "U.S. Safety Agency Opens Inquiry into Tesla Fires," *The New York Times*, November 19, 2013, *www.nytimes.com*.

Exhibit 7.A

Business Pushes Back on the Dodd-Frank Act

Three years after the Dodd-Frank Act was passed, only 40 percent of the regulations had been written. President Obama, an advocate of the act, wanted to know why, so he called in those responsible for writing the act's regulations. Nine different agencies were summoned, reflecting one of the major problems with the act—too many agencies were involved. The U.S. Treasury, the Federal Reserve Board, the Office of the Comptroller of the Currency, the Consumer Financial Protection Bureau, the Federal Housing Finance Agency, the Commodity Futures Trading Commission, the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Securities and Exchange Commission all had oversight of parts of the law.

In addition, businesses launched a political attack targeting these agencies and Congress. By 2012, more than 3000 lobbyists swarmed Capitol Hill, nearly six for every member of Congress, to influence or delay the full impact of the Dodd-Frank Act. The financial services industry spent more than $1 billion targeting the weakening of the Dodd-Frank Act. As one consumer advocate pointed out, "The lobbyists are just the point of the spear. There are also the regulatory lawyers, the research staffs, the public relations people and all those loyal think tank supporters shilling for the banks."

From 2013 to 2015, Congress voted to roll back major elements of the Dodd-Frank Act, such as repealing the requirement that big banks "push out" some derivatives trading into separate units that are not backed by the government's insurance funds, delaying by two years the mandate that financial firms sell off bundled debt, exempting some private equity firms from registering with the SEC, and allowing some small, publicly traded companies to omit historical financial data from their financial filings.

Sources: "The Red Tape That's Choking Financial Reform," *Bloomberg Businessweek*, August 26–September 1, 2013, p. 14; "How Wall Street Defanged Dodd-Frank," *The Nation*, April 30, 2013, *www.thenation.com;* "House Votes to Repeal Dodd-Frank Provision," *The New York Times*, October 30, 2013, *dealbook.nytimes.com;* and, "House Passes Measure to Ease Some Dodd-Frank Rules," *The New York Times*, January 14, 2015, *www.nytimes.com.*

The two main antitrust enforcement agencies are the Antitrust Division of the U.S. Department of Justice and the Federal Trade Commission. Both agencies may bring suits against companies they believe to be guilty of violating antitrust laws. They also may investigate possible violations, issue guidelines and advisory opinions for firms planning mergers or acquisitions, identify specific practices considered to be illegal, and negotiate informal settlements out of court. Antitrust regulators have been active in prosecuting price fixing, blocking anticompetitive mergers, and dealing with foreign companies that have violated U.S. laws on fair competition. In Europe, the European Commission enforces antitrust regulation, as seen in the Microsoft example that follows.

> In 2013 Microsoft was fined €561 million ($732.2 million) by the European Commission (EC) after it broke its voluntary promise to offer more than 15 million Windows users a choice of rival web browsers. The fine was the latest altercation between the EC and Microsoft. A decade earlier, the EC fined Microsoft €1.6 billion ($2.08 billion) for failing to provide rivals with information at fair prices and for tying its media player to its operating system. According to EC's competition chief, "such a breach is of course very serious, irrespective of whether it was intentional or not and it calls for sanctions. I hope this decision makes companies think twice before they ever think of internationally breaching their obligations or even neglecting their duty to ensure strict compliance."[18]

If a company is found guilty of antitrust violations, what are the penalties? The government may levy a fine—sometimes a large one, as the EC did against Microsoft. In another example, Berkshire Hathaway agreed to pay $896,000 to settle U.S. allegations that the

[18] "EU Fines Microsoft $732 Million," *The Wall Street Journal*, March 6, 2013, *online.wsj.com.*

Exhibit 7.B

The Affordable Care Act: Health Care Coverage Mandated for Americans

In 2010, led by President Obama, Congress passed the Affordable Care Act, often referred to as "Obamacare." The basic purpose of the law was to hold insurance companies accountable for their costs and services to their customers, lower the rising health care costs, provide Americans with greater freedom and control over their health care choices, and ultimately improve the quality of health care in America. Its provisions would be rolled out over 10 years. In 2010, the government began giving subsidies to small businesses that offered health coverage to employees, insurance companies were barred from denying coverage to children with preexisting illnesses, and children were permitted to stay on their parents' insurance policies until age 26.

The health care reform law aroused strong passions on both sides. Proponents of the law argued that the more than 5.1 million people on Medicare would save over $3 billion in prescription drugs costs, 105 million Americans would no longer have lifetime dollar limits on their health care coverage, and approximately 54 million Americans would receive greater preventative medical coverage. Health care fraud would decline by $4.1 billion annually due to new fraud detection measures, and 2.5 million young adults would retain health care coverage under their parents' plan. Most importantly, most Americans would now have health insurance coverage.

But, opponents challenged the new law as filled with myths, untruths, and harmful consequences. Some believed that the act would do nothing to bring down the cost of health care. Business leaders worried that the burden of providing their employees with health care insurance would result in bankruptcy or cause employers to reduce the level of health care coverage for their employees. Many worried that the mandate infringed on individual rights—including the right to go without health insurance if they chose. Several states sued, saying the law violated the constitution.

By 2015, nearly 11.7 million Americans had selected marketplace plans or been automatically enrolled under the act. Twenty-eight states and the District of Columbia had expanded their Medicaid coverage, with more than 10 million more Americans enrolled in Medicaid or the Children's Health Insurance Program. Under the act, millions more Americans received preventive services, such as vaccines, cancer screenings, and annual wellness visits at no out-of-pocket cost, than ever before. In addition, Americans could no longer be denied or dropped from coverage because of pre-existing conditions or because they hit an annual or lifetime cap in benefits.

Sources: "What's in the Bill," *The Wall Street Journal,* March 22, 2010, *online.wsj.com;* "Get the Facts Straight on Health Reform—A More Secure Future," *The White House,* n.d., *www.whitehouse.gov;* and "The Affordable Care Act Is Working," *Department of Health and Human Services, www.hhs.gov.*

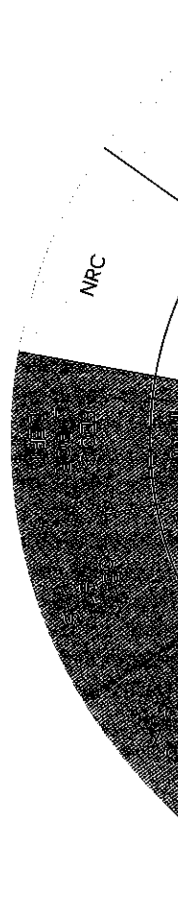
Government regulators and the courts have the challenging job of applying the broad mandates of public policy.

Figure 7.1 depicts these two types of regulation—economic and social—along with the major regulatory agencies responsible for enforcing the rules at the federal level in the United States. Only the most prominent federal agencies are included in the chart. Individual states, some cities, and other national governments have their own array of agencies to implement regulatory policy. There is a legitimate need for government regulation in modern economies, but regulation also has problems. Businesses feel these problems firsthand, often because the regulations directly affect the cost of products and the freedom of managers to design their business operations. In the modern economy, the costs and effectiveness of regulation, as well as its unintended consequences, are serious issues that cannot be overlooked. Each is discussed below.

The Effects of Regulation

Regulation affects many societal stakeholders, including business. Sometimes the consequences are known and intended, but at other times unintended or accidental consequences emerge from regulatory actions. In general, government hopes that the benefits arising from regulation outweigh the costs.

FIGURE 7.1 **Types of R**



Economic regulatory ager

NRC	Nuclear R
FAA	Federal A
FCC	Federal C
FERC	Federal E
FRB	Federal R
CFTC	Commod
FREDDIE MAC	Federal H
DOT	Departme

Social regulatory agencies

EEOC	Equal Em
OSHA	Occupati
MSHA	Mine Safe
FTC	Federal T
HHS	Departme

The Costs and Benefits of Regulation

The call for regulation may seem irresistible to government leaders and officials given the benefits they seek, but there are always costs to regulation. An old economic adage says, "There is no free lunch." Eventually, someone has to pay for the benefits created.

An industrial society such as the United States can afford almost anything, including social regulations, if it is willing to pay the price. Sometimes the benefits are worth the costs; sometimes the costs exceed the benefits. The test of **cost–benefit analysis** helps the public understand what is at stake when new regulation is sought.

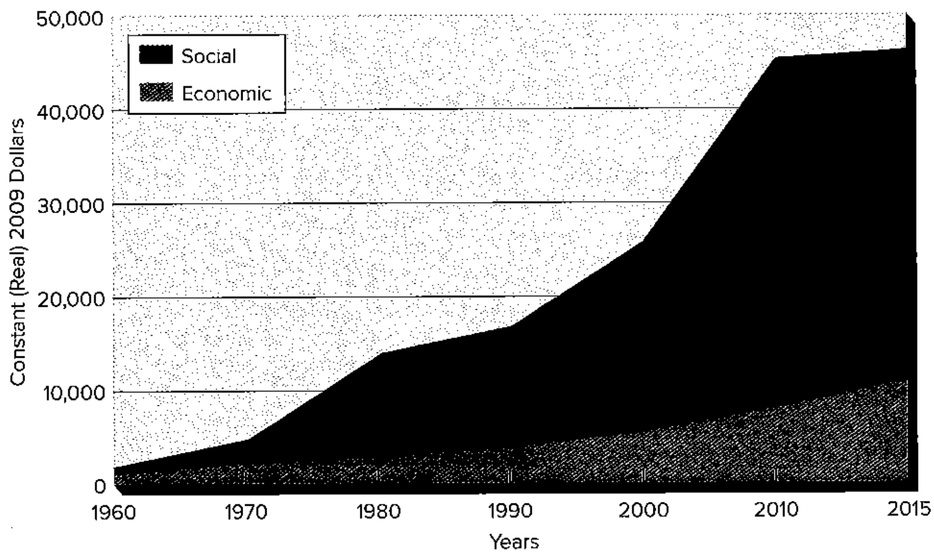
Figure 7.2 illustrates the increase in costs of federal regulation in the United States since 1960. Economic regulation has existed for many decades, and its cost has grown more slowly than that of social regulation. Social regulation spending reflects growth in such areas as environmental health, occupational safety, and consumer protection. A rapid growth of social regulation spending occurred in the 1960s and again in the 2000s, but has slowed somewhat recently. The cost of regulation has its critics, especially when the costs to small businesses or manufacturing firms are considered.

> Economists Nicole Crain and Mark Crain reported that complying with federal regulations cost U.S. businesses more than $2 trillion each year. Compliance costs were highest for regulations focusing on the environment and worker safety and fell disproportionately on manufacturers and small businesses. The average manufacturing company paid compliance costs of nearly $20,000 per employee annually, nearly double the average cost paid by all U.S. businesses. "There's no question it's harming our country's economic growth," said the National Association for Manufacturers' president. "This is hidden tax. It's a cost to the economy."[21]

But other economists pointed out that the Crain study, commissioned by the National Association of Manufactures, was flawed since it relied on the opinions of business executives who had a vested interest in overestimating regulatory costs. They also argued that the researchers failed to measure the benefits that regulations provided the country. Some

FIGURE 7.2
Spending on U.S. Regulatory Activities

Source: Susan Dudley and Melinda Warren, "Regulators' Budget Increases Consistent with Growth in Fiscal Budget," Regulatory Studies Center, The George Washington University and Weidenbaum Center, Washington University in Saint Louis, May 2015, *regulatorystudies.columbian.gwu.edu.*



[21] "New Study Places $2T Yearly Price Tag on Federal Regulation," *Pittsburgh Post-Gazette*, September 11, 2014, *www.post-gazette.com.*

FIGURE 7.3
Staffing of U.S. Regulatory Activities

Source: Dudley and Warren, Ibid.

spending would be uncovered. In only 2 years, regulatory agencies proposed the following cost-savings changes:

- The Department of Health and Human Services finalized new rules to promote telemedicine to help hospitals and patients in rural areas, saving around $65 million over the next 5 years.
- The Department of Labor coordinated its hazards warning requirements with those of other nations, increasing safety and saving employers over $1.5 billion over the next 5 years.
- The Occupational Safety and Health Administration announced a new rule that removed over 1.9 million annual hours of redundant reporting burdens on employers, saving more than $40 million in annual costs.
- The Department of Agriculture modernized and streamlined poultry inspections rules, saving the private sector over $1 billion over the next 5 years while increasing safety in the process.
- The Federal Communications Commission eliminated over 190 redundant regulations.[23]

Continuous Regulatory Reform

The amount of regulatory activity often is cyclical—historically rising during some periods and declining during others. Businesses in the United States experienced a lessening of regulation in the early 2000s—*deregulation*—only to observe the return of regulatory activity in the late 2000s and early 2010s *reregulation.*

Deregulation is the removal or scaling down of regulatory authority and regulatory activities of government. Deregulation is often a politically popular idea. President Ronald Reagan strongly advocated deregulation in the early 1980s, when he campaigned on the promise to "get government off the back of the people." Major deregulatory laws were enacted beginning in 1975 when Gerald Ford was president and continued through the administrations of Jimmy Carter, Ronald Reagan, and George H.W. Bush, and returned during George W. Bush's administration. During these presidential administrations deregulation occurred in the commercial airlines, interstate trucking, railroads, and financial institutions industries. Some argued that when the 1933 Glass-Steagall Act was repealed in 1999 by the passage of the Financial Modernization Act, the lack of regulatory controls over the banking and securities industries led to the serious financial problems causing the economic recession in the late 2000s.

Deregulation has also occurred in Europe, especially in the arena of social regulation. In the United Kingdom, for example, the Approved Code of Practice (ACoP) governing various employee safety and health issues was downgraded to a "Guidance," a weaker form of regulatory control. In 2015, the U.K. passed the Deregulation Act that relaxed decades of increased regulatory control governing housing accommodations, motor vehicle insurance coverage, energy efficiency, and urban development, with the intention of less governmental influence in the lives of citizens.[24]

Proponents of deregulation often challenge the public's desire to see government solve problems. This generates situations in which government is trying to deregulate in some areas while at the same time creating new regulation in others. **Reregulation** is the increase or expansion of government regulation, especially in areas where the regulatory activities

[23] "Regulatory Reform Progress," January 30, 2012, *www.whitehouse.gov.* For an interesting ethical analysis of this regulatory investigation, see "The Obama Administration's Regulatory Review Initiative: A 21st Century Federal Regulatory Initiative?" Thomas Hemphill, *Business and Society Review,* Summer 2012, pp. 185–95.

[24] "Deregulation Act 2015," *Planning Resource,* April 13, 2015, *www.planningresource.co.uk.*

Regulation in a Gl

At other times, the issues themselves cut across national borders, so international regulation is needed. Sometimes, nations negotiate agreements directly with one another, and at other times they do so under the auspices of the United Nations or regional alliances. For example, the United Nations monitors international uses of nuclear power due to the great potential for harm to those living near nuclear power plants and based on the threat of converting this technology into nuclear weapons.

In 2012, the United Nations was called to Iran to investigate and determine if this country was developing enriched uranium that could be used for nuclear weaponry. Some enriched uranium was discovered, but it was unclear if Iran was developing nuclear weapons. Three years later, the world's major economic powers—the United States, the United Kingdom, France, Germany, Russia, and China—reached an accord with Iran that would require Iran to dismantle its nuclear program in exchange for the lifting of some economic sanctions by the United Nations and the major economic powers.[27]

Whether at the local, state, federal or international levels, governments exert their control seeking to protect society through regulation. The significant challenge involves balancing the costs of this form of governance against the benefits received or the prevention of the harms that might occur if the regulation is not in place and enforced. Businesses have long understood that managing and, if possible, cooperating with the government regarding regulation generally leads to a more productive economic environment and financial health of the firm.

Summary

- Government's relationship with business ranges from collaborative to working at arm's length. This relationship often is tenuous, and managers must be vigilant to anticipate any change that may affect business and its operations.
- A public policy is an action undertaken by government to achieve a broad public purpose. The public policy process involves inputs, goals, tools or instruments, and effects.
- Regulation is needed to correct for market failure, overcome natural monopoly, and protect stakeholders who might otherwise be hurt by the unrestricted actions of business.
- Regulation can take the form of laws affecting an organization's economic operations (e.g., trade and labor practices, allocation of scarce resources, price controls) or focus on social good (e.g., consumer protection, employee health and safety, environmental protection).
- Antitrust laws seek to preserve competition in the marketplace, thereby protecting consumers. Remedies may involve imposing a fine, breaking up a firm, changing the firm's conduct, or requiring the disclosure of information to competitors.
- Although regulations are often very costly, many believe that these costs are worth the benefits they bring. The ongoing debate over the need for and effectiveness of regulation leads to alternating periods of deregulation and reregulation.
- The global regulation of business often occurs when commerce crosses national borders or the consequences of unregulated business activity by a national government are so large that global regulation is necessary.

[27]"Iran, World Powers Reach Nuclear Deal," *The Wall Street Journal*, July 14, 2015, *www.wsj.com*.

Key Terms

Internet Resources

research on the effects of e-cigarettes showed that the nicotine in e-cigarettes was addictive, just as it was in tobacco cigarettes, but because e-cigarettes did not produce smoke they were less harmful to a user's lungs than tobacco. However, much remained unknown. As one medical school professor explained, "E-cigarettes may be less harmful than cigarettes, but we still don't know enough about their long-term risks or the effects of second-hand exposure."

A few countries took up the issue of e-cigarette regulation. In 2013, Singapore banned importing and selling e-cigarettes. This move surprised many, as most Asian countries have a high tolerance for smoking and Singapore did not restrict the importation or sale of tobacco cigarettes. In 2014, the European Parliament approved rules governing e-cigarettes. Beginning in mid-2016, e-cigarette advertising was banned in the 28 nations of the European Union, as it already was for ordinary tobacco products. E-cigarette packages were required to carry a graphic health warning and be childproof. The amount of nicotine was limited to 20 milligrams per milliliter, similar to ordinary cigarettes. But the issue of regulating e-cigarettes soon moved to the global stage.

Despite the inconclusive evidence of harms caused by e-cigarette smoking, the World Health Organization (WHO) urged governments to restrict its use. The WHO report recommended that governments "ban the use of electronic cigarettes indoors and in public places and outlaw tactics to lure young users." It argued that the ban on indoor use was necessary "until exhaled vapor is proven to be not harmful to bystanders." It also called for regulation to ensure the products contained a standard dose of nicotine (since the dose varied widely among manufacturers), ban sales to minors, and prohibit the manufacture of fruity, candy–type e-cigarette flavorings.

Initially, most of the e-cigarette regulatory activity in the United States occurred at the state and local levels. By 2015, three states—North Dakota, New Jersey, and Utah—had banned e-cigarettes in public places such as restaurants and bars, and 18 states had passed some limitations on the use or sale of e-cigarettes. Nearly 400 cities or countries had restrictions on e-cigarettes. Yet, actions taken by the U. S. Food and Drug Administration in 2009, when it aggressively attacked the manufacturing, sale, and use of tobacco cigarettes by enforcing the Family Smoking Prevention and Tobacco Control Act, set the stage of more regulation targeting e-cigarettes.

In 2014 the U.S. Food and Drug Administration took a limited regulatory approach when it announced new rules that prohibited sales of battery-powered nicotine delivery devices to anyone under 18 years of age and required manufacturers to submit their products for FDA approval, in addition to disclosing ingredients and warning consumers that nicotine was addictive. But, the new FDA rules stopped short of attempting to ban advertising of e-cigarettes, Internet sales, or candy or fruit flavors, as recommended by the WHO. Makers of e-cigarettes breathed a big sigh of relief when they heard these limited restrictions. "I'm pleased the FDA has created a structure to treat these products differently than traditional combustible cigarettes," said Miguel Martin, president of Logic Technology Development, a leading e-cigarette maker.

Perhaps U.S. tobacco manufacturers had learned an important lesson from the severe regulatory controls imposed on the marketing of cigarettes, because they took initiative in effect to regulate themselves. Many placed the strongest health warnings ever on e-cigarettes, going even further than the warnings mandated on tobacco cigarette packages. Altria, the maker of Marlboro cigarettes, stated on its packages of MarkTen, its e-cigarette line, "People with heart disease, high blood pressure and diabetes should not use this product. Neither should children. Nicotine can cause dizziness, nausea and stomach pains, and may worsen asthma. Nicotine is addictive and habit forming, and is very toxic by inhalation, in contact with the skin, or if swallowed." Similarly, Reynolds American, makers of Camel cigarettes

Discussion Questions