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Public Utility Economics

By

PAUL J. GARFIELD AND WALLACE F. LOVEJOY

Englewood Cliffs: Prentice-Hall, Inc. 1964

Pp. xvi, 505, \$10.00

This is an important and ambitious text, full of useful information and analysis. Since the War there has been a decline in teaching and research in the field, though in the last few years there have been signs of a revival of research. The two most recent texts with which Garfield and Lovejoy's will compete do not reflect some of the newer economic findings and debates.¹ Therefore, there is a wide opening for a text which, as the present one sets out to do, emphasizes economic issues of pricing, allocation and regulatory policy.

It might be fair to say that the book achieves some success in this regard, but that the book is most useful—very useful indeed—with its descriptive material. Four introductory chapters introduce the traditional background material on "the public utility concept," economic characteristics of public utilities, and the history and processes of regulatory action. The first five chapters in Part II present the calculations and concepts of rate cases, with extended treatment of the intricacies of expenses, rate base, valuation, depreciation and rates of return. This is the most solid and complete major part of the book; legal and accounting issues are well presented and illustrated—though there is some wordiness.

The next two chapters (10 and 11), on Pricing Policies, are the main effort of the book to grapple with genuine economic issues. This discussion has the great merit of integrating the general issues with a close attention to actual rate systems. Moreover, water supply and urban transit are included, as well as the more usual electricity, telephone, gas distribution and pipeline rates. Unfortunately the economic analysis is neither original nor penetrating. The rate schedules are more described than analyzed, and the controversies and conflicts they represent—value of service, cost of service, fair

1. These are Glaeser, *Public Utilities in American Capitalism* (1957), and Bonbright, *Principles of Public Utility Rates* (1961).

return, comparable earnings, and especially marginal conditions of allocation—are often glossed over.

Much of the treatment of telephone rates, for example, appears to be drawn from Bell System presentations. In such cases, the problem this raises is not so much one-sidedness; it is rather that the genuine unsettled economic questions are often not even acknowledged at all. For another example, the exhaustive descriptive survey of electricity rate schedules—from Hopkinson on—contains only vague mention of the peak-load pricing problem which economists have been hammering at for years, and in which progress is being made abroad. Houthakker, Steiner, Vickrey and especially Davidson are not even mentioned. To take other areas, the occasional mentions of risk-return conditions are entirely superficial; the conflicts between value-of-service and cost-of-service are noted, not analyzed; and the notion of “incentive regulation” is not given any adequate discussion.

Chapter 12 gives a useful case study of an actual rate case. Part III (Chapter 13) surveys and appraises the regulatory agencies, but only from a legal-administrative viewpoint. Part IV (and Chapter 21) survey natural gas regulation and energy trends with uncommon thoroughness. The remaining four chapters offer interesting discussions of tax, labor, financing and structural problems of utilities—subjects not found in most utility textbooks.

The descriptive merits of this book are least affected by the evident approval of public regulation which the authors entertain throughout. On this ground alone the book deserves the widespread adoption it will no doubt get. Yet the volume represents a defeat for economic analysis and teaching in the field. One finds here a faithful mirror—in many respects an improved mirror—of the field as it *has been*. But many of the old economic issues, and almost all of the new questions, are slighted or ignored. Despite its important merits, the book can be recommended for courses in the economics of public utilities and public utility policy only with reservations.

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