

Abstract for "Regulations in 2 Lessons: How to Build Policy for the Real World"

This work presents a critical framework for evaluating regulation, grounded in two foundational lessons: (1) *How does this regulation address the knowledge problem?*—the inherent limitations of centralized systems to process dispersed and imperfect information; and (2) *How does this regulation address the incentive problem?*—the tendency of individuals to act in their self-interest, even in public institutions. Drawing insights from Hayek's exploration of decentralized knowledge and Buchanan's emphasis on aligning incentives, the analysis critiques control-based regulatory frameworks (Controllers) while advocating for competition-driven alternatives (Competitors).

Through comparative institutional analysis and real-world case studies—such as driver licensing, building codes, and disaster preparedness—the paper demonstrates how regulations built on control systems often fail to accommodate these two realities. Centralized, control-based regulations presume perfect knowledge and altruistic behavior, leading to inefficiencies, perverse incentives, and unaccountability. In contrast, competitor-driven regulations leverage market mechanisms, fostering innovation and accountability through decentralized knowledge and profit-driven alignment of incentives.

The work argues that effective regulations must be rooted in systems that are robust to imperfect knowledge and self-interest. By emphasizing results over intentions, competition-driven regulatory frameworks can adapt dynamically to societal needs, mitigate externalities, and deliver better outcomes in an imperfect world. This analysis serves as a blueprint for crafting regulations that align with real-world constraints, ensuring they are both pragmatic and resilient.