Public Policy Overview

- Goals
- Instruments
- Obstacles

"...unleashing monopolies before real competition could mean..."
  - Higher prices for consumers
  - Hinder competition.
- Transitional safeguards needed

Public Policy: Instruments

- Regulation/Social Control
  - Rate of Return Regulation (ROR)
    - Benchmark (Yardstick)
    - Incentive Regulation
    - No Regulation
- Antitrust / Monopoly Policy

Public Policy Overview

- Cost Minimization
- "Correct" Prices
- Rent Extraction (Monopoly)
- Equity?
Incentive/Price Caps Regulation

- Competitive Entry Encouraged
- Limit on the Incumbent's Prices
- Productivity Factor

Role of Competition

- Allocation of Resources
- Incentive for Efficiency
- Threat of Entry Discipline

Role of Competition

- Incentive for Efficiency
  - Prices => costs
  - Pressure to reduce costs
  - Selection of more efficient firms
  - Promote innovation
  - Diminish regulatory imperfections

Additional Motivation for Competition

- Product Differentiation
- Cost Differences
- Benchmark (Yardstick) Competition

Competitive Policy Overview

- Institutional Advantage (Incumbent)
- Technology Advantage (Incumbent)
- Regulatory/Competitive Synergy

Competitive Policy Overview

- Institutional Advantage (Incumbent)
  - Institutionalized cross-subsidies
  - Name recognition
  - Established customer-base

Competitive Policy Overview
- Institutional Advantage
- Technology Advantage
  (Incumbent)
  - Numbering
  - Metering?
  - High customer switching costs

Competitive Policy Assessment
- Competitive Entry
- Merger/Acquisition Policy
- Price Discrimination
- Cross-Subsidies
- Universal Service Obligations

Competitive Policy Overview
- Institutional Advantage
- Technology Advantage
- Synergy: Competition
  - Substitutes for regulation
  - Complements regulation
  - Regulation can distort competition

Horizontal Mergers Allowed
- Eliminates Competition
- Removed Benchmark Competition
- Economies of Scale?
- Access Bottleneck Enhanced?

Vertical Mergers
- Intermediate Price Problem
- Market Foreclosure
- Economies of Scope

Conglomerate Mergers
- Economies of Scope
Price Discrimination

- Cost Justified
- Not Simply Uniform Price
- Not Pejorative
- Nonlinear Prices

Price Discrimination

- Nonlinear Pricing
  - Volume Discounts
  - Declining Block Pricing
  - Welfare Enhancing

Price Discrimination

- Nonlinear Pricing
- Efficiency Improved
  - Examples:
    - Mr. Bid and Little
    - Peak / Off-peak Pricing
    - Nonlinear Pricing

Price Discrimination

- Nonlinear Pricing
- Efficiency Improved
- Third-degree
  - Different Prices,
  - Different Customers Class
  - Business / Residential
  - Rural/Urban

Price Discrimination

- Nonlinear Pricing
- Efficiency Improved
- Third-degree
- Discrimination
- Second-degree: Same discounts, All customers
  - Bulk tariffs
  - Quantity Discount

Price Discrimination

- Not Uniform Prices
- Nonlinear Pricing
- Efficiency Improved
- Third-degree
- Discrimination
- Second-degree
- Predatory Pricing
Cross-Subsidies

- No Market Test
- Inefficient
- Avoids Competition
- Anti-Competitive

Anti-competitive

Universal Service

- Inefficient
  - Not Marginal Subscribers
  - Not Targeted
  - Not Desired
- Incidence Not Addressed
- Companies Subsidized

Incidence

- Service Subsidy
- Demand Patterns
- User Subsidy