The Future of Regulation
Symmetry Regulatory & Competition
Based on
Regulatory Reform for Exchange Carriers:
Competition through Regulatory Symmetry
Closing Address, 1994 ITS Conference, Sydney
Mark Schankerman, London School of Economics

Agenda

Symmetrical Regulation
Strategic Entry Deterrence
Transition to Competition
Price Caps Reform
Universal Service
Productive Offset

Agenda

Symmetrical Regulation

Prevents
Social Inefficient Entry
Technical Efficient Loss

Symmetrical Regulation

Asymmetrical Regulation
Intrinsically Bias Towards Firms or Technology

Asymmetrical Regulation Criterion

Deterrents by Incumbent
Least Costly Resolution
Symmetrical Regulation: Benchmark

- Asymmetrical Unjustified
- Regulatory Instrument

Agenda

- Symmetrical Regulation
  - Strategic Entry Deterrence

Strategic Entry Deterrence

- Preemptive Investments
  - Vertical Price Squeeze
  - Predatory Pricing
  - Cross Subsidization

Strategic Entry Deterrence

- Preemptive Investments
  - Implies
    - Indivisible Sunk Costs
    - Small Markets
    - Sunk Costs on Exit

Strategic Entry Deterrence

- Preemptive Investments
  - Foiled By
    - Superior Technology of Entrant
    - Incomplete Information

- Vertical Price Squeeze
Strategic Entry Deterrence

- Vertical Price Squeeze
  - No Competitors
  - Mandate Interconnection Inappropriate
  - Require Competition before Price Caps

Strategic Entry Deterrence

- Preemptive Investments
- Vertical Price Squeeze
- Predatory Pricing

Strategic Entry Deterrence

- Predatory Pricing
  - Not if below MC of Competitors

Strategic Entry Deterrence

- Predatory Pricing
  - Establish & Maintain Market Power
  - Irrational if LR Profit Maximizer

Strategic Entry Deterrence

- Predatory Pricing
  - Unbundling, Open Architecture & Mandate Interconnection Prevent

Strategic Entry Deterrence

- Predatory Pricing
  - Ineffective with Contestable Markets
  - Place Price Floors
  - Antitrust Remedies
Strategic Entry Deterrence

- Preemptive Investments
- Vertical Price Squeeze
- Predatory Pricing
- Cross Subsidization

Cross Subsidization

- Incumbent & Entrant
- Maintenance of Market Power

Asymmetrical Unjustified

Symmetrical Regulation Benchmark

Strategic Game

- Stage One: Potential Suppliers Decisions
- Stage Two: Price Competition

Strategic Game

Requires Expectation of Competition at Stage Two

Transition to Competition

Any Regulatory Restrictions at Stage Two will Affect Entry Decisions at the First Stage

19-24
Policy Implication is to set the Transitional Rules Now, Not at Some Future Date

Decisions on Critical Issues which Affect Entry & Investments Decisions
Now, not After Implementing Reform

Competitive Provision of Access
- Technological Developments
- Mix of Provision
- Functional Definition
Price Caps Reform

- Market Share NOT a Guide
  - Endogenous
  - Penalizing Efficiency

Price Caps Reform:
- Recommendations
  - Functional Definition
  - Accessible Facilities
  - Flexibility versus Competition
  - Market Definition Narrow
  - Reject Market Share Criterion

Agenda

- Symmetrical Regulation
- Strategic Entry Deterrence
- Transition to Competition
- Price Caps Reform
- Universal Service

Universal Service

- Targeted Subsidies
  - NOT Service Subsidies
  - Minimizes Distortions
  - Minimizes Bypass Problems

Agenda

- Symmetrical Regulation
- Strategic Entry Deterrence
- Transition to Competition
- Price Caps Reform
- Universal Service
- Productive Offset

Productive Offset

- LR TFP Correct Measure
- Partial Measures Incorrect
- NOT Firm’s Performance
Summary

- Technology Outgrown Regulation
- Comprehensive Reform Needed

Summary: Recommendations

- NO Asymmetrical Regulation To Control
  - Pre-emptive Investment
  - Vertical Price Squeezes
  - Predatory Prices
  - Cross Subsidization

Summary: Recommendations

- Regulatory Symmetry Unless
  - Incumbent Deters Entry
  - Redress is Less Costly
- Comprehensive Reform
- Transitional Framework NOW

The Future of Regulation

Symmetry Regulatory & Competition