Competition and (tele)communications

RPI conference
The role of competition in public policy

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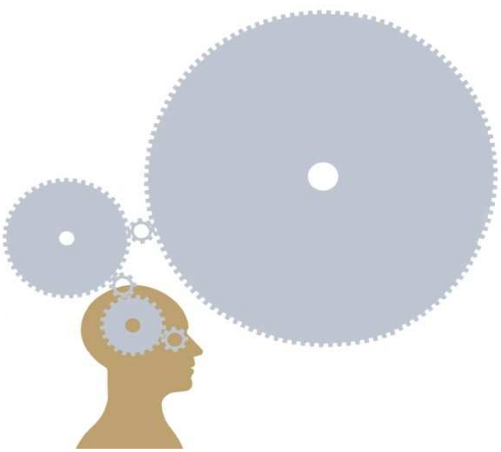

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If it is going to work anywhere, it is going to work here

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When is competition the answer?

- Stephen Littlechild's early vision was no Oftel after three years: regulation was strictly temporary
- 2010… and we are still producing mountains of regulatory analysis, arguing about minute amounts (the network externality surcharge), large amounts (MTRs should be zero) and the legitimacy of regulation ('new' entrants should be excluded), and inventing new regulatory interventions (eg, rural broadband subsidy, net neutrality)
- or even worrying that new infrastructure will not be built unless even existing levels of competition are suppressed
- even in mobile ... 5 to 4 in mobile, or is it really 4 and a bit to 3 and bit?

So what went wrong, and why?

Seeds of (self-?) destruction

1. competition is the best/only solution
   - the *outcome* of competitive processes, when there are no market failures, is often the answer, or at least a reasonably good answer
2. competition = no intervention (good);
   regulation = the dead hand of the state (bad)
   - competition (processes that deliver distributed control functions) requires intervention (rules) applied with some force by the state to ensure that it delivers a reasonably good outcome
3. the market is best able to decide what the best outcome should be
   - the market is a means to an end—unless the desirable characteristics of the end are defined outside the outcome of the market process, there is no frame of reference for judging the success or desirability of intervention (or no intervention)
4. BT (or Vodafone, or the BBC, or Sky) is the problem
   - network externalities, economies of density, information asymmetry, etc, are not the preserve of the specific supplier, but features of the system and the economic characteristics of the supply of the services that customers want in the final product market. Pure size may be an *additional* problem, but it is not the only problem (and often is not very serious)

Over-claiming for competition?

- telecommunications liberalisation takes place when:
  - large parts of the (long, thin) infrastructure are in place
  - there are inefficiencies in the current provision
  - the cost base of the industry is falling as a result of external factors
  - technical change is changing some of the economic characteristics of the industry
  - **all can be winners**
- now things are a bit different
  - new (long, thin) infrastructure is needed
  - reaping the ‘benefits’ of distorted prices
  - what was free turns out not to be
  - expectations and reality are parting company
  - certain problematic characteristics are becoming more important (eg, welfare-enhancing price discrimination)

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Babies and bath water, or who remembers Hushaphone?

- when the conditions are right, competition is usually the right answer
  - equipment connected to the network, mobile phone handsets, TVs and radios
  - but critically, with defined (ie, regulated) network interfaces, network termination points, etc, interoperability requirements, accounting separation, no cross-subsidy rules, FRAND, etc
  - operation of the market, *within special rules applied to the industry*
  - and even Hushaphone is being referenced again in FCC hearings

Bath water and babies, or who remembers mobile service providers?

- a failed experiment in (semi-) structural separation
- and more:
    - to LLU or not to LLU?
    - the cabling (TV) of the UK? (What price two trenches?)
    - Ionica (but WiFi hotspots?)
    - ADC (only three people understood the equation, one is dead, one has retired to the south seas and the third thinks he is Santa Claus)
    - and now net neutrality, Skype on mobile, access restrictions

Implications: static

- there are good (economic) reasons why the provision of (tele)communications services is subject to special rules (ie, regulated)
  - these relate to the fundamental characteristics of the industry, not specific firms
  - they mean that the simple application of ‘competition’ may deliver sub-optimal outcomes (and often no effective competition)
- harnessing competitive dynamics to deliver better outcomes is hard, and is not necessarily in the interests of the industry (as in real competitive markets)

Implications: dynamics

- if special rules are required because the industry has problematic characteristics, it is naive to expect the industry to come up with the special rules that deliver optimal outcomes for consumers
  - the invisible hand does not work—that is why special rules are needed
- the special rules (should) shape the dynamics in a way that delivers better outcomes
  - if you wait for the problems to arise, recovery becomes more difficult: market failures are profitable, some outcomes are path-dependent (eg, standards)
- regulators should take a view of what the structure/dynamics *should be*, otherwise intervention is always playing catch-up

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