Public Enterprise as Substitute for Regulation in Postal Services

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University of St. Gallen

Peter Hettich

Summary

- In postal markets, neither pure public nor pure private postal service provision seems desirable
- Current postal regulation (price and entry controls, public enterprise, etc.) does not efficiently promote public policy goals
- A paradox? A public enterprise alone is able to guard public policy goals and to promote socially desirable behavior of private actors.
  → **“Yardstick Competition”**
- “Yardstick Competition” substitutes regulatory safeguards and preserves economic freedom

Contents

I. Approach

- **Public Interest Theory:**
  Market regulation and public enterprises are legitimate instruments to carry out public policy
- **Public Choice Theory:**
  Regulators and public enterprises may be captured by special interests
- **Economic Analysis of Law:**
  Analysis supports reduced regulation and the introduction of “Yardstick Competition”

II. Public Policy Goals (1/2)

A. Article 92 of the Swiss Constitution: "Post- und Fernmeldewesen"

- Ausreichende und preiswerte Grundversorgung mit Post- und Fernmeldediensten in allen Landesgegenden
- Tarife nach einheitlichen Grundsätzen

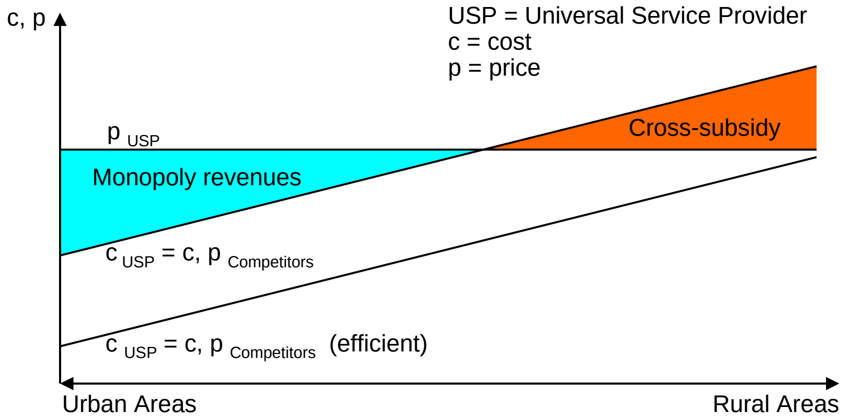
II. Public Policy Goals (2/2)

B. 39 U.S.C. § 101: Postal Policy

- Basic and fundamental service
- Basic function to bind the nation together through the ... correspondence of the people
- Prompt, reliable, and efficient services
- Maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining
- Rates on a fair and equitable basis

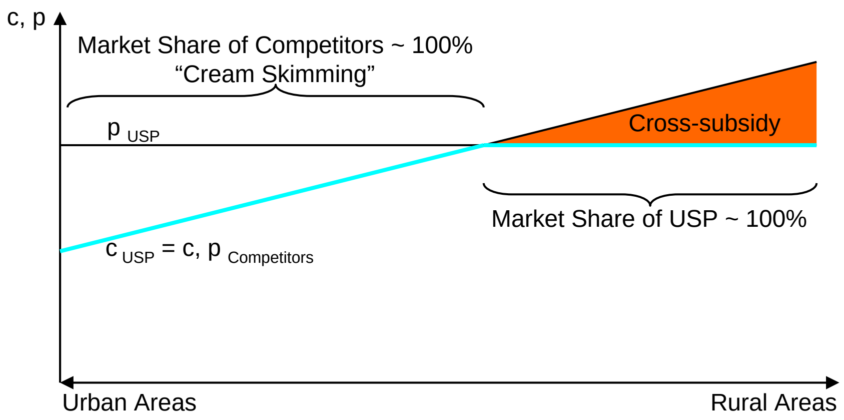
III. Current Regime (1/7)

A. Universal Service Requirement



III. Current Regime (2/7)

B. “Cream Skimming”



III. Current Regime (3/7)

C. Dubious Cross-Subsidy Rationale

- **Social welfare justification?**
  Competitive prices benefit low-income-customers mostly living in urban areas
- **Prevention of discriminatory pricing?**
  Bulk of postal service is provided to business customers
- **Decisive to prevent migration into cities?**
  Other incentives to prevent migration into urban areas

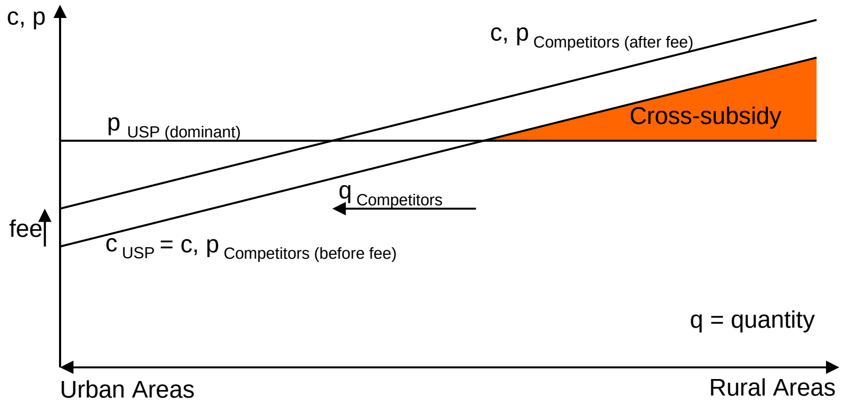
III. Current Regime (4/7)

D. Dubious Monopoly Rationale

- Monopoly cannot be justified as fund for the cross-subsidy
- Monopoly carries usual inefficiency, hampers innovation
- Monopoly affects private competitors
- Monopoly promotes anticompetitive behavior by public enterprise
- Less distortive instruments are available, e.g. direct subsidies to rural municipalities (enables contracting for service)

III. Current Regime (5/7)

E. Compensatory Fund



III. Current Regime (6/7)

F. License Requirements

- Ability to provide service
  - Necessary logistics
  - Necessary know how
- Meet basic working standard of the industry
- Annual reports / information duties
- Adherence to applicable law
  - In particular the postal act
  - Franchise

III. Current Regime (7/7)

G. Dubious License Rationale

- License does not protect strong public interest (life, health, environment, etc.)
- High market exit rates observed despite license in Germany
- CHF 100,000 threshold for license reduces protection further in Switzerland
- Level playing field for public and private competitors: Private competitors are made unwilling servants of public interest

IV. “Yardstick Competition” (1/4)

A. Starting Point

- “Yardstick Competition” does not seek to implement perfect competition
- “Yardstick Competition” accepts that markets like postal services do not provide “sufficient” output (merit goods rationale)
- “Yardstick Competition” as more efficient way to achieve policy goals, while preserving economic freedom

IV. “Yardstick Competition” (2/4)

B. Public Enterprise as Public Policy Guardian

- Public enterprise as direct instrument to carry out public policy goals
(avoids most usual problems of contracting)
- Public enterprise sets a “yardstick”:
  - Minimum service quality
  - Minimum service availability
(in rural areas possibly subsidized)
  - Competitive pricing even in oligopoly
- Competitive pressures force public enterprise to operate efficiently
(bidirectional effect of “yardstick”-discipline)

IV. “Yardstick Competition” (3/4)

C. Effects of the Yardstick on Competitors

- The “yardstick” of the public enterprise sets incentives for socially desirable behavior by private competitors
- Need for additional economic regulation is removed, resulting in
  - less coercion
  - preservation of competitive process / economic freedom
  - less need for monitoring and enforcement, compared to regulation and contracting

IV. “Yardstick Competition” (4/4)

D. No Mechanism to extract Information

- Full information is not revealed, in particular:
  - true costs of rural service
  - decisions on business strategies
  - costs of single, unbundled services
- No device for regulators to adjust regulation in postal markets
- Working “Yardstick Competition” does not need full information

V. Counter-Arguments (1/2)

A. Public Choice

- Capturing by special interests
  - Treasury
  - Regional planning
  - Management (empire building)
  - Employees, unions
- Contradictory strategic goals
  - Efficient operations
  - Large Workforce
  - Profits
  - Rural Service, etc.

V. Counter-Arguments (2/2)

B. Competition Policy

- Public enterprises are more likely to engage in anticompetitive conduct
  - Expansion of business
  - Strategic behavior to drive out competitors
  - Lobbying for strict regulation
- Incumbent possesses large market power: Regulated markets are currently affected by power imbalances

VI. Concluding Remarks

- Combination of public enterprise with further regulatory safeguards (universal service requirement, limited competition, license) is inefficient and does not serve public policy goals
- “Yardstick Competition” by the public enterprise incentives socially desirable behavior of privates
- “Yardstick Competition” by private actors forces the public enterprise to operate efficiently
- “Yardstick Competition” allows withdrawal of regulatory safeguards, preserving economic freedom

I am happy to receive your comments and questions on

ph2169@columbia.edu