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SI 507: Information Policy Analysis and Design

Wk 4: Competition and Antitrust
(plus some leftover telecoms stuff)

- Telecoms review: spectrum, universal service and broadband
- Economics of antitrust in the information industries
- Periods / orientations in U.S. antitrust policy
- Antitrust as information policy

Telecoms policy (review)

- Natural monopoly arguments and the regulated monopoly solution (vs. government ownership ("PTOs"))
- Dual jurisdiction (FCC and states)
- Universal service via implicit cross-subsidies (urban to rural; long distance to local; business users to residential)
- Regulatory concerns: price gouging + monopoly leveraging (local exchange, long distance services, equipment manufacturing)
- 1960s on, competition on the margins (equipment, LD, business services)
- Key concepts: facilities-based competition; regulatory parity; forbearance

Interconnection policy

Intercarrier Compensation:

Question: When a call starts in one network, and ends in another, who pays?

Two solutions: "bill-and-keep" vs. "calling network pays"

Varieties of intercarrier compensation:

- access charges (paid by LD to local telcos);
- reciprocal compensation rates (local telco to local telco);
- international settlement fees (nat'l carrier to nat'l carrier).
- Peering relations (Internet backbone providers)

** NB: robust interconnection policy a (regulation-intensive) alternative to "structural separation" (i.e. divestiture) **

Telephony in the 1996 TCA

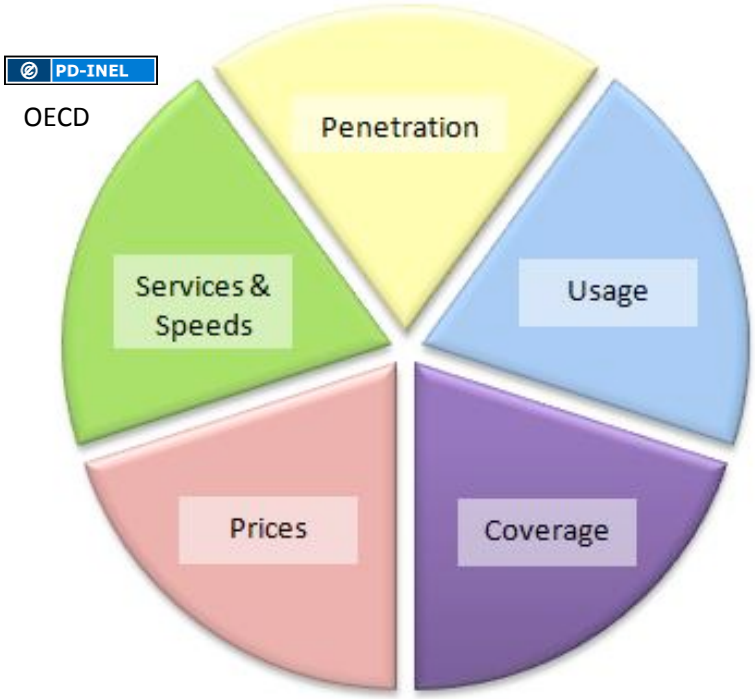
For local telephone companies (ILECs, the 'baby Bells'):

- Unbundling / 'wholesaling' requirements (resale competition)
- Number portability
- Dialing parity
- 'competitive checklist' in response for reentry into long distance markets (outside of the home service area), equipment manufacturing
- Limiting local cross-ownership of cable and telephone
- Explicit support for universal service in 'basic services'

Universal service under the TCA

- Justifications: 'network externalities' (enhancing value of network by enhancing its reach); economic development; democratic participation; public safety.
- FCC's Universal Service Fund (USF):
  1. Lifeline and Link-Up (need-based subsidies)
  2. subsidies for rural telcos
  3. broadband subsidies for libraries and schools
  4. broadband subsidies for rural hospitals and clinics
- Key question: is broadband now (or becoming) an 'essential service'?

Broadband Policy



OECD's broadband indicators:
http://www.oecd.org/sti/ict/broadband

Report of the U.S. Broadband Coalition on a National Broadband Strategy (Sep 24, 09) [http://www.baller.com/pdfs/US_Broadband_Coalition_Report_9-24-09.pdf]

Broadband Stimulus Package (March 09):

Provides $7.2 billion to support national broadband development through:

NTIA's Broadband Technology Opportunities Program (BTOP);

US Department of Agriculture's Broadband Initiatives Program (BIP); see:

www.broadbandusa.gov/files/**BTOP_NOFA_FactSheet7-1-09.pdf**

Spectrum policy

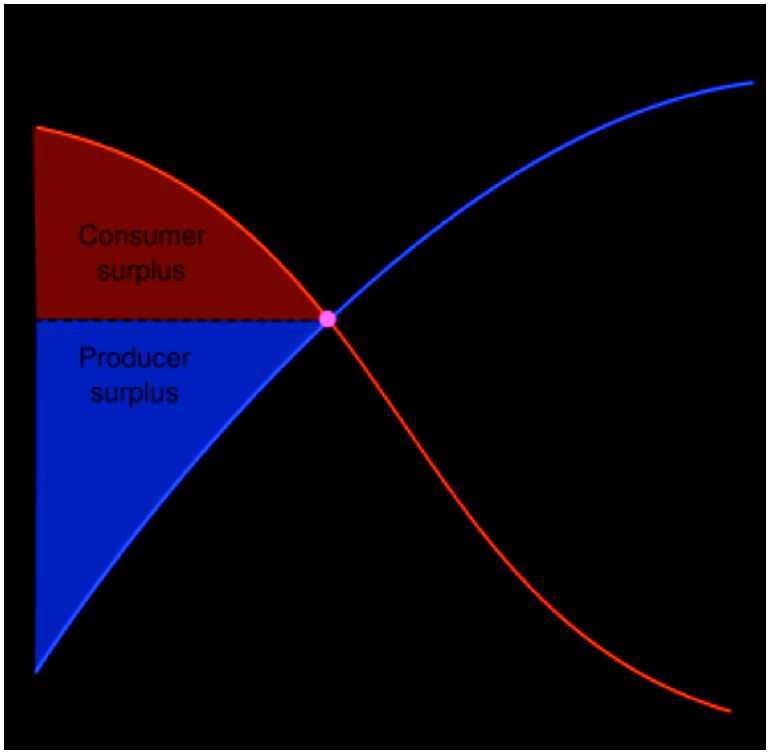
- (see NTIA's spectrum map at: http://www.ntia.doc.gov/osmhome/allochrt.pdf)
- Scarcity and interference: "trustees" and "traffic cops," enforced through the licensing system
- Allocation, allotment, and assignment – from comparative hearings ("command-and-control") to lotteries, to auctions (market efficiency, revenue generation, etc.)
- Post command-and-control:

  - property rights model (market efficiencies, innovation, etc.)

  - commons models (unlicensed users and frequencies, variable power, new receiver technologies, etc.)

- Problems and developments: What to do with the incumbents? How to go about band-clearing (reallocating under-utilized spectrum)? How to use "smart" spectrum strategies (e.g. white spaces, spread spectrum technologies, etc.)?

Economics of antitrust



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- Consumer, producer, and total surplus
- Price discrimination (first (perfect), second (product line), and third-degree (group or geographic)
- Substitutes and complements
- Market definition
- Barriers to entry

Economics of antitrust in the information industries

Distinctive characteristics of 'informational goods':

- High fixed costs and low marginal costs (strong scale effects)
- Strong network effects (direct and indirect)
- Switching costs and 'lock-in'(standards and interconnection)

Periods / orientations of U.S. Antitrust policy

Period (rough)	Approach	Analytic basis	Concerns & tendencies
1890s-1930s	aggressive	Pragmatism, populism	Defense of farmers & small firms; control of trusts
1930s-1950s	permissive	Pragmatism, managerialism	Protection of struggling industries; war coordination
1960s-1970s	aggressive	Structure-conduct-performance (Harvard School)	Structural roots to competition & anti-competition
1980s-1990s	permissive	Chicago School	Economic efficiency; regulatory failures
1990s-present	moderate	"Post-Chicago"	???

Key U.S. Antitrust legislation

- Sherman Act (1890)
- Federal Trade Commission Act (1914)
- Clayton Act (1914) (plus amendments)
  * Robinson-Patman Act (1936)
  * Celler-Kefauver Act (1950)
  * Hart-Scott-Rodino Act (1976)

Objectives of competition policy

Primary objectives:

- **Welfare (total surplus, consumer surplus; "allocative efficiency")**
- Support for smaller firms (SMEs)

Ancillary / secondary objectives:

- Promoting market integration (esp. EU)
- 'Economic freedom' (esp. Germany)
- Inflation control
- Fairness and equity (consumers & customers)
- Crisis management
- Industrial and trade policy (infant industries, national champions)

Antitrust as information policy

- Antitrust (passive, sporadic) vs. regulation (active, ongoing)
- Consumer surplus / total welfare vs. public interest standards
- Dual review (FTC/DOJ and FCC)