Striking a Balance in the Regulation of Imperfect Markets: Are We in Transition Or in Never Never Land?

Conference on Reconciling Markets and Regulations
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Big Picture:
Regulation and Policy: Betwixt, Between, Bewildered and Belittled

■ Congress
  ■ An Elegant Combination:
    ■ Impotence, Incompetence, Incoherence and Indulgence

■ Regulatory Agencies
  ■ Frustrated Agendas and Fractured Authority
Better to Focus More Narrowly: Five Critical Issues

- Pricing and Service Quality
- When Are Essential Service Providers Market Participants?
- Behavioral Or Structural Fixes to Conflicts
- Extent of Reliance on Markets
- Diversification and Convergence
Pricing and Service Quality

- Do Price Caps and Rate Freezes Alter Incentives?
- Discriminating Between Incentives for Cost Cutting and for Productivity
- Can Incentives Suffice for Assuring Quality?
When Are Essential Service Providers Market Participants?

- Examples: Electric Transmission Owners, Local Exchange Carriers, Distribution Companies

- Alternatives
  - How Effective?
  - How Expensive?
  - How Complicated to Administer Market Mechanisms: (e.g. Number Portability vs. Transmission Expansion)
Behavioral or Structural Fixes to Conflicts

- **Behavioral Fixes**
  - Easier to Enact
  - Difficult to Enforce (e.g. Brokerage Research)
  - Management Priorities (e.g. Talent and Effort Follow Dollars)

- **Structural Fixes**
  - Difficult to Enact
  - Easier to Enforce
  - Clearer Management Focus
Extent of Reliance on Markets

- Ideological Leaps of Faith (e.g. Competition or Deregulation)

- Treatment of Externalities/Social Outcomes

- Using Market Mechanisms Or Pure Markets
Diversification and Convergence

- **Effects of Diversification**
  - Enhanced Risks/Rewards
  - Who Benefits? Who Loses?
  - Management Focus and Resources
  - Impact on Competition

- **Effects of Convergence**
  - Enhanced Risks/Rewards
  - Who Benefits? Who Loses?
  - Management Focus and Resources
  - Impact on Competition