

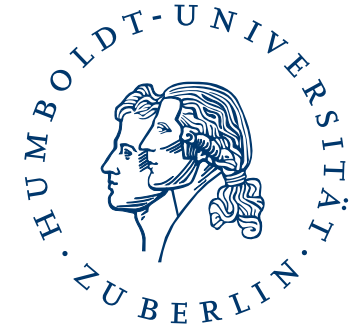
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A new Paradigm for the European Communication Policy

Ulrich Kamecke

WIK-Newsletter 62 (March 06): Do we need a new Paradigm for the European Communication Policy?

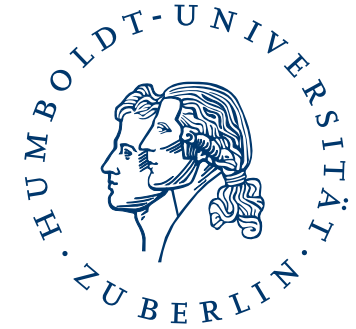


Schumpeter's principle asserts that excessive profits in a market attract firms / entrepreneurs who use completely new technical solutions to cut the ground from under the present dominant firm's feet. With superior technologies or services new enterprises replace the old. According to Schumpeter this process of creative destruction creates value for the consumers and the economy, because the new technologies which (economically) destroy the old ones are more efficient and cheaper.

Applied to the telecommunication sector Schumpeter's paradigm implies the following: Regulation must be abolished; dominant firms should charge excessive prices and realize monopoly profits on all levels of their activities. The more they do so the earlier they will be challenged and replaced by firms from other sectors (or true newcomers). Practically speaking: Microsoft replaces the telecommunication but with superior technologies and lower prices. Thus Schumpeter's beautiful (intact) world.

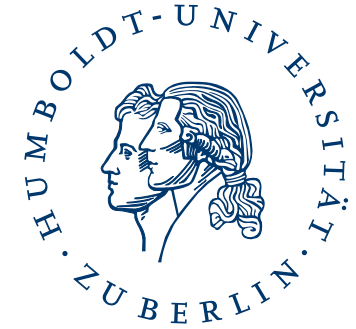
Karl-Heinz Neumann, Joachim Scherer

Outline



1. Schumpeter's „intact world“ as a new Regulation Paradigm
2. Implications and Open Questions
3. Conclusion

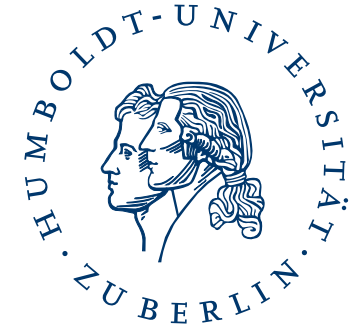
Schumpeter (Harvard)



Schumpeter's two hypotheses about dynamic competition:

- Theory of Economic Development (S1)
 - Process of Innovation and Immitation
 - The desire incentive to escape (perfect) competition generates new ideas
 - Innovation leads to **temporary monopoly power**
 - Immitation destroys the lead and re-establishes competition
- Capitalism, Socialism and Democracy (S2)
 - The innovator gains a persistent advantage over potential competitors
 - This advantage generates dominant firms who are no longer controlled by competition
 - Society replaces the market control by democratic control

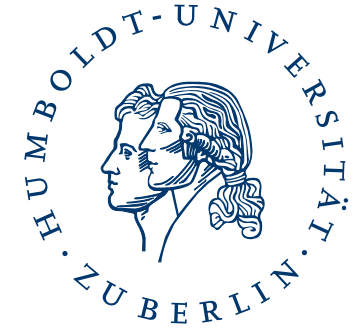
The Schumpeterian Regulation Paradigm



Schumpeter as a (new) regulation paradigm:

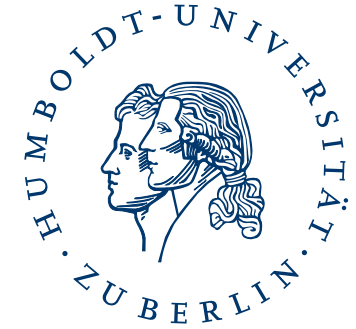
- A normative interpretation of Schumpeter's approach:
Regulation should mimic the S1-outcome in an S2-situation
 - Distinguish good (S1) and bad (S2) monopoly power
 - Wait for the S1-process of imitation after each innovation
 - In case of S2 replace the competitive pressure with regulatory pressure
- S2-regulation according to the established static principles
- **No S1-regulation in new and emerging markets**

Implications and Open Questions



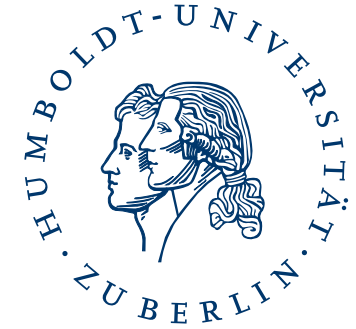
- No forward looking regulation
 - No regulation of new markets
 - No regulation of new developments
- Technological neutrality (economic principle)
 - One regulated alternative per market is enough
 - No extended regulation in new markets
 - Clarification of extended regulation in related markets
 - Definition of access points/markets
 - Changing versus emerging markets

Implications and Open Questions



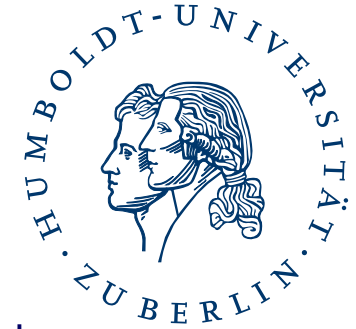
- **Revision Process**
 - Persistence of regulated monopolies (Chicago)
 - Predictability and Reliability (Eucken)
 - Consistent Regulation:
 - Commitment
 - Bankruptcy (investment ladder)
- **Timing**
 - Patent protection (?)
 - R&D Joint Ventures (?)
- **Network effects**
 - Late rents
 - Development breakdowns

Conclusion



Review Process is necessary

WIK-Newsletter 62 (März 06): Ist ein Paradigmenwechsel für die europäische Kommunikationspolitik angesagt?



Das Schumpeter'sche Prinzip setzt gerade darauf, dass durch die Erzielung überhöhter Gewinne in einem Markt Unternehmen / Unternehmer angelockt werden, die durch völlig neuartige technische Lösungen den (oder dem) bisherigen marktdominanten Unternehmen den Boden unter den Füßen wegziehen. Mit überlegenen Technologien oder Diensten treten neue Unternehmen an die Stelle der alten. Dieser Prozess der schöpferischen Zerstörung schafft, so Schumpeter, dadurch Gewinne für den Konsumenten und die Volkswirtschaft, dass neue Technologien, die die alten (wirtschaftlich) zerstören, leistungsfähiger und kostengünstiger sind. Übertragen auf die Telekommunikationsbranche folgt aus dem Schumpeter'schen Paradigma Folgendes: Regulierung gehört abgeschafft; marktmächtige Unternehmen sollten auf allen Ebenen ihres Tuns überhöhte Preise setzen und Monopolgewinne erzielen. Je mehr sie dies tun, um so eher werden sie von Unternehmen aus anderen Branchen (oder echten Newcomern) herausgefordert und abgelöst. Konkret gesprochen: Microsoft tritt an die Stelle der Telefongesellschaften, aber mit überlegenen Technologien und niedrigeren Preisen. So die schöne (heile) Welt von Schumpeter.

Karl-Heinz Neumann, Joachim Scherer