

ECRi-newsletter

ECRi: a network of experts in regulation and competition policy

The Erasmus Competition and Regulation Institute (ECRi) is a network of experts in regulation and competition policy. It integrates the knowledge of

- The Rotterdam School of Economics Microeconomics section)
- The institute of Health Policy and Management (iBMG), University Medical Center Rotterdam
- The Rotterdam School of Law (Institute of Law and Economics, RILE)
- SEOR (Competition and regulation section)

ECRi conducts research for clients, such as ministries, private companies, law firms and regulators on numerous aspects of regulation and competition policy.

The objective of ECRi is to provide effective, con-

cise, readily understandable and scientifically sound regulatory and competition policy advice for business and public policy-makers.

Given the extensive expertise of its participants, within ECRi both theoretical and empirical knowledge is available in the following fields:

- Health economics: especially on analysis of health care markets, government policy, regulation and health insurance.
- Industrial organisation: especially on market structure, firm strategy and market performance, non-profit organisations, antitrust policy, regulation and industrial policy and (network) industries studies.

- Law and economics: especially on antitrust law, both in the Netherlands and in the European Union.
- Mathematical and quantitative methods: especially on cross sectional models, time-series models and models with panel data;
- Microeconomics: especially on game theory and issues regarding market structure and pricing, such as auctions.

In addition to their expertise of competition and regulation in general, ECRi fellows have built up extended specific knowledge of several markets such as health care, waste, water, telecom, energy (electricity and gas), cycling, containers and notastudies.

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Reliability in networks: Better safe than sorry?

CPB and ECRi published the report *Better safe than sorry?* This report develops a roadmap for reliability policy in network industries. In the past few years, reliability in network industries has become a major topic. Several incidents and the debate that followed motivated this study, in which we answer two questions. First, which characteristics of network industries, called underlying market characteristics, are important for reliability? Second, given these underlying market characteristics, which policy is appropriate in order to secure reliability in such industries?

There are two major reasons why reliability is such an important topic in network industries. First, the impact of network failures on social welfare may be very large: separate failures may affect the whole system and also affect the functioning of other industries in the economy. Second, the relationship between the actions of companies and reliability is generally not observable. Given information asymmetry between the government and network companies, the task for policy makers to develop an appropriate reliability policy is very complex.

Based on economic theory, we analyse the relationship between reliability and various types of government policy: privatisation, liberalisation, regulation, unbundling, and 'commitment policy'. We let government policy depend on (1) the feasibility of competition between networks, (2) contractibility of reliability, and (3) the relation between profit maximisation and public interests. We test this roadmap on the basis of the empirical literature and case studies on electricity, natural gas, drinking water, wastewater, and railways.

Advice on allocation telephone numbers adopted

SEOR-ECRI's advice on the allocation of telephone numbers has been adopted by the Dutch Minister of Economic Affairs. The auction will be organized in the way ECRi advised.

In future, special telephone numbers, like alpha-numeric numbers, will be allocated via a so-called proxy-auction. The proxy-auction is a sealed-bid

variant of the English auction (used by auction houses like Christy's and Sotheby's). In such a proxy-auction the winner is the one with the highest bid, however he only pays the bid of the runner-up.

"Dat (...) neemt niet weg dat het gehanteerde veilingmodel slechts een kleine aanpassing is op het door SEOR-ECRI voorgestelde model." (Staatscourant, 8 sept 2004)

The strength of this auction model lies in its simplicity and in the fact that this auction type is both efficient (the advantage of the English auction) and inexpensive (the advantage of the first-price sealed-bid auction).

The proxy-auction is for example also used by auction sites like eBay.com and Ricardo.nl.

Is Lisbon strategy feasible?

ECRI-fellows Harry van Dalen, Stéphanie van der Geest and Marco Varkevisser published an article in *Economische Statistische Berichten (ESB)* on the feasibility of the so-called Lisbon strategy.

In March 2000, the European Council in Lisbon set out a ten-year strategy to make the EU "the most competitive and dynamic knowledge-based economy in the world,

capable of sustainable economic growth with more and better jobs and greater social cohesion."

In their article the authors, also including Job Swank of the Rotterdam School of Economics, conclude that currently the labour market is Europe's weak point. That is, it is based on noble equity considerations, but as a consequence heavily regulated and employees are (almost) immobile. Mi-

gration from outside the EU and ageing populations, however, both call for an increased labour mobility. This requires painful choices as dynamics and social cohesion are conflicting goals, in contrast to what the Lisbon strategy suggests.

The article is based on a study for the Ministry of Social Affairs and Employment.

Regulating the Dutch Waste Market

Elbert Dijkgraaf defended his PhD-thesis "Regulating the Dutch Waste Market" at 5 november 2004. This thesis analyses whether the risen costs of waste collection and treatment can be diminished by changing policy instruments. As a result of regulation the costs of waste treatment in the Netherlands rose at a high speed during the last thirty years. From an economic point of view at least circumstantial evidence exist that other types of regulation might decrease total costs. Each of the chapters of this thesis analyses a part of the effects of changes in regulation on total social costs of the Dutch waste chain. Four specific questions are dealt with.

The **first two questions** relate to the waste collection market:

Is it possible to decrease the quantity of waste collected by making use of unit-based pricing systems for household waste (chapter 2)?

Is it possible, given the amount of collected waste, to decrease total private collection costs by contracting out the waste collection of municipalities (chapter 3) and, if this is the case, which factors may explain the relative low penetration of contracting out (chapter 4)?

Dutch municipalities show important differences in choices made with respect to contracting out and the use of unit-based pricing. At first sight, these differences may be in conflict with empirical evidence. International experiences suggest some evidence that municipalities that contract out waste collection and use unit-based pricing have

lower total collection costs. However, international experience might be misleading due to differences in local circumstances. Furthermore, the international literature has important caveats which make a proper judgement difficult. Chapter 2 and 3 are meant to improve the empirical basis for such a judgement.

As the results are that both methods seems to be effective indeed, the question remains why not all Dutch municipalities use these methods. While for unit-based pricing the reason could be that it is only recently introduced which could imply a difference between avant-gardists and hesitators, contracting-out is a proven method that is used for a long time. However, the economic theory presents some reasons that might explain this behaviour. Chapter 4 presents an empirical test of these theories.

The **last two question** relate to the waste treatment market:

Given the amount of collected waste, is it possible to decrease total treatment costs by changing the preference for incineration above landfilling (chapter 5)?

Given the amount of collected waste and the preferred treatment options, is it possible to decrease total private treatment costs by increasing international competition (chapter 6)?

To ensure a proper treatment of waste, the government has chosen for a preference of incineration above landfilling. This preference for incineration was at the time motivated by environmental con-

cerns regarding landfilling. However, no explicit comparison was made between the two options on the basis of both external and private costs. As long as the decrease in external costs is offset by the increase in private costs, incineration is indeed the best option from an economic point of view. However, the far higher private costs of incineration at least questions whether this is the outcome when a proper total social costs analysis is the basis for a choice between landfilling and incineration. We present such an analysis in chapter 5. The type of regulation chosen for the waste treatment market resulted in monopolistic behaviour. Competition between landfilling and incineration firms disappeared due to the high landfill tax. This tax was introduced to steer waste streams in the direction of incineration, which was seen as a better disposal option than landfilling. Furthermore, competition between waste incineration plants was low due to the small geographic market. Not only export to foreign waste incineration plants was prohibited, during some years the national market was even divided in different parts. An interesting question is whether these market restrictions are necessary to fulfil the goals the government has set. Moreover, from an economic point of view the question is whether the chosen form of regulation minimizes total treatment costs. Chapter 6 presents therefore a simulation model that makes it possible to analyse these issues.

GVS-revision: A social cost-benefit analysis

ECRI finished a research project for the Pharmaceutical Committee of the American Chamber of Commerce in the Netherlands. In the report a cost-benefit analysis is presented about a major revision

of the prescription-drug coverage system (GVS) in the Netherlands. It is shown that limiting drug reimbursement may have serious adverse effects on total health care costs, the availability of new drugs

and welfare of the elderly and patients with chronic illnesses. Economische Statistische Berichten (ESB) has published an article from the authors that is based on this project.



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ECRi integrates the knowledge on competition and regulation issues of the Rotterdam Schools of Economics, Law, and Medicine and Health Sciences (iBMG) and SEOR B.V. (part of EUR-Holding B.V.).

The following organizations already asked ECRi-fellow's advice

- Accell
- Afvalsturing Friesland (Omrin)
- American Chamber of Commerce
- AVR
- CTG-ZAIO
- Dutch waste processing association (VVAV)
- Dutch Society of Psychotherapist
- ECT
- Essent
- Hydron Zuid-Holland
- Ministry of Economic Affairs
- Ministry of Education, Culture and Science
- Ministry of Housing, Spatial Planning and the Environment
- Ministry of Finance
- Ministry of Health, Welfare and Sports
- Ministry of Justice
- Ministry of Social Affairs and Employment
- NMa
- Notaries (Netherlands, Belgium and France)
- Parliament
- Province of Gelderland
- Province of Noord-Holland
- Proximus
- T-Mobile
- VEWIN

Scientific publications ECRi-fellows

ECRi-fellows publish also regularly in scientific journals. On the website a full list is provided. Here we highlight some recent contributions.

Brouwer, E., H.P. van Dalen, Th. Roelandt, M. Ruiter, and H.P. van der Wiel (2004), Market Structure, Innovation and Productivity: A Marriage with Chemistry, in: G. Gelauff, L. Klomp, S. Raes and Th. Roelandt (Eds.), *Fostering Productivity*, Elsevier, Amsterdam, pp. 197-210

Bettendorf, L., S.A. van der Geest and M. Varkevissier (2003), Price asymmetry in the Dutch retail gasoline market, *Energy Economics*, vol. 25(6), pp. 669-689

Dijkgraaf, E. and R.H.J.M. Gradus (2004), Cost savings of unit-based pricing of household waste: The case of the Netherlands, *Resource and Energy Economics*, , 26, 353-371

Dijkgraaf, E. and H.R.J. Vollebergh (2004), Burn or bury? A social cost comparison of final waste disposal methods, *Ecological Economics*, 50, 233-247

Dykstra, M.J. and J. de Koning (2004), Competitive procurement of reintegration services in the Netherlands, in M.C.W. Janssen (ed.), *Auctioning Public Assets: Analysis and Alternatives*, Cambridge University Press

Helderman, J.K., F.T. Schut, T.E.D. van der Grinten and W.P.M.M. van de Ven (forthcoming), Market-oriented health care reforms and policy learning in the Netherlands, *Journal of Health Politics, Policy and Law*

Janssen, M.C.W. (ed.) (2004), *Auctioning Public Assets: Analysis and Alternatives*, Cambridge University Press

Janssen, M.C.W. and E. Mendys (2004), The Price of a Price: On the crowding out of social norms, *Journal of Economic Behavior & Organization*, 55, 377-395

Janssen, M.C.W. and J.L. Moraga-Gonzales (2004), Strategic Pricing, Consumer Search and the Number of Firms, *The Review of Economic Studies*, 71, 1089-1119

Maasland, E., Y. Montangie and R. Van den Bergh (2004), Leveling the Playing Field in Auctions and the Prohibition of State Aid, in M.C.W. Janssen (ed.), *Auctioning Public Assets: Analysis and Alternatives*, Cambridge University Press

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