

# **Current challenges of postal universal-service regulation in microeconomic pictures**

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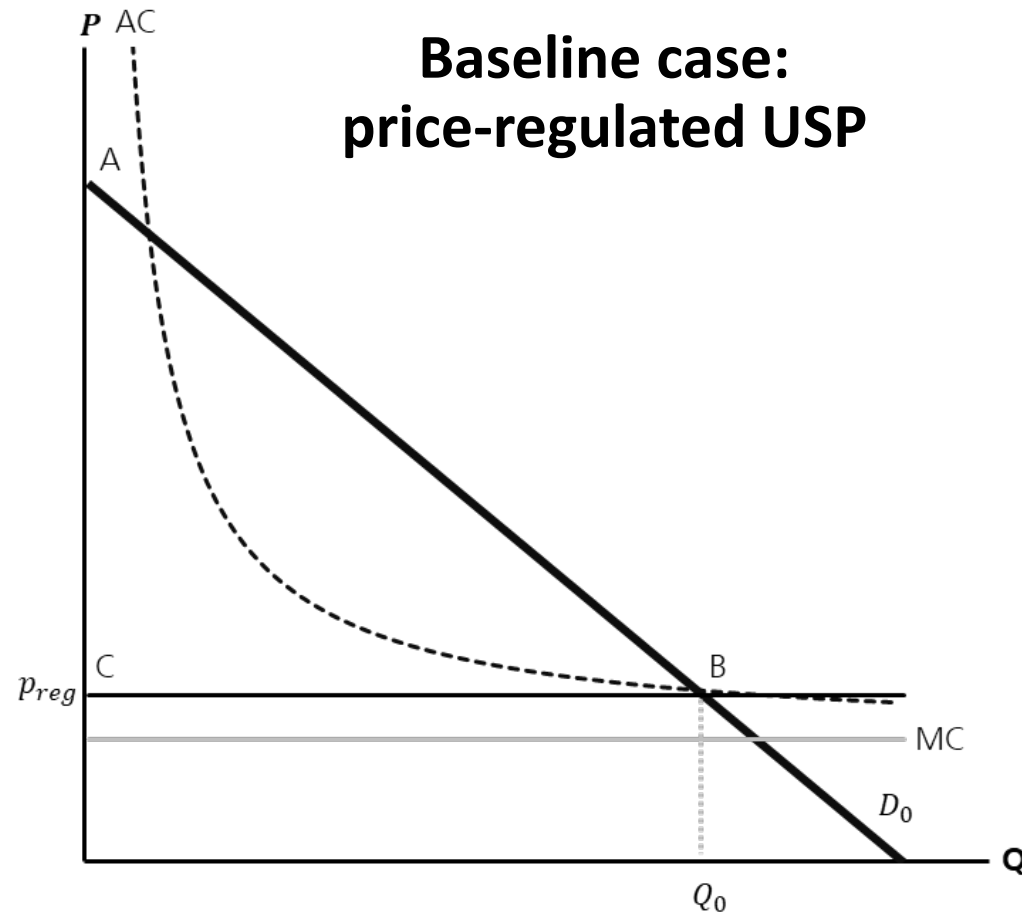
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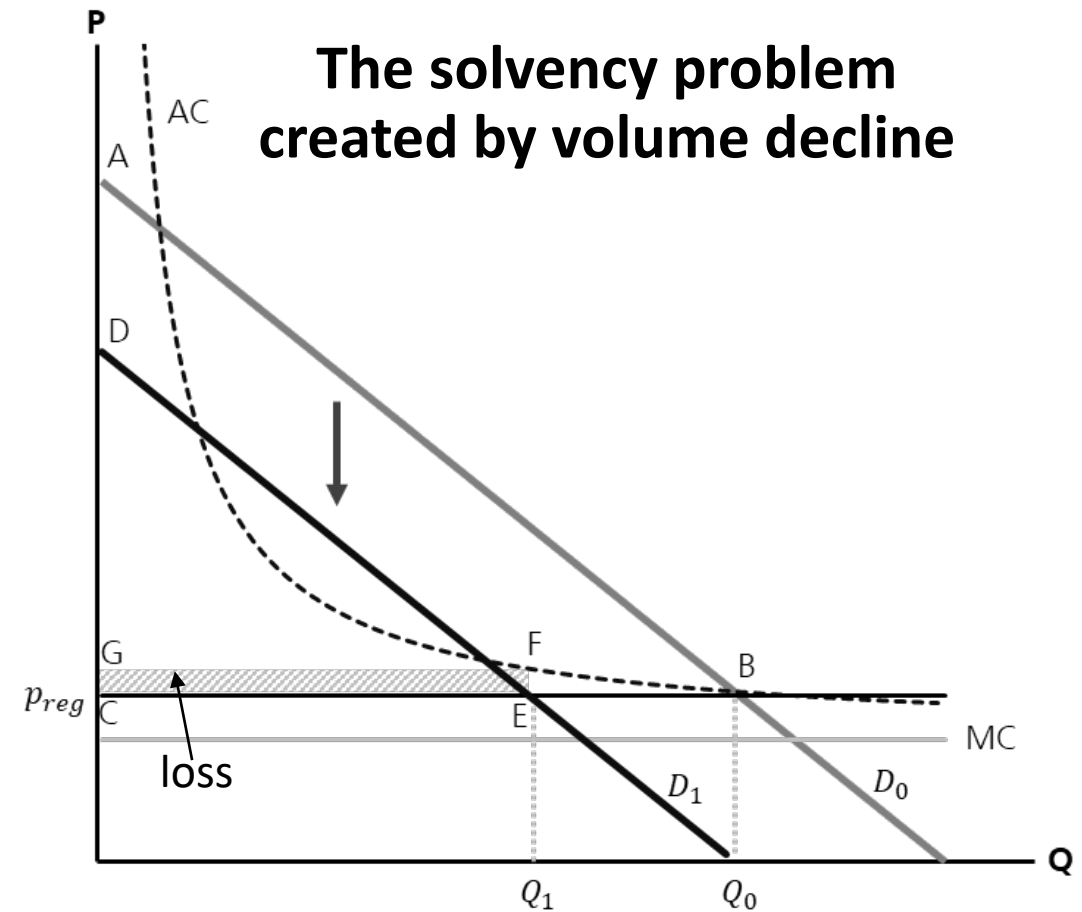
# Introduction

- Postal regulation is about **markets**
- Microeconomic pictures** are frequently used, but only for specific questions
- Idea: propose **one framework for a number of issues** in postal regulation as a common ground for discussions (textbook-style)
- Basic assumption: USOs have become a **binding constraint** for USPs (prices, scope/quality)
- Disclaimer: framework builds on many assumptions

# Setup / benchmark

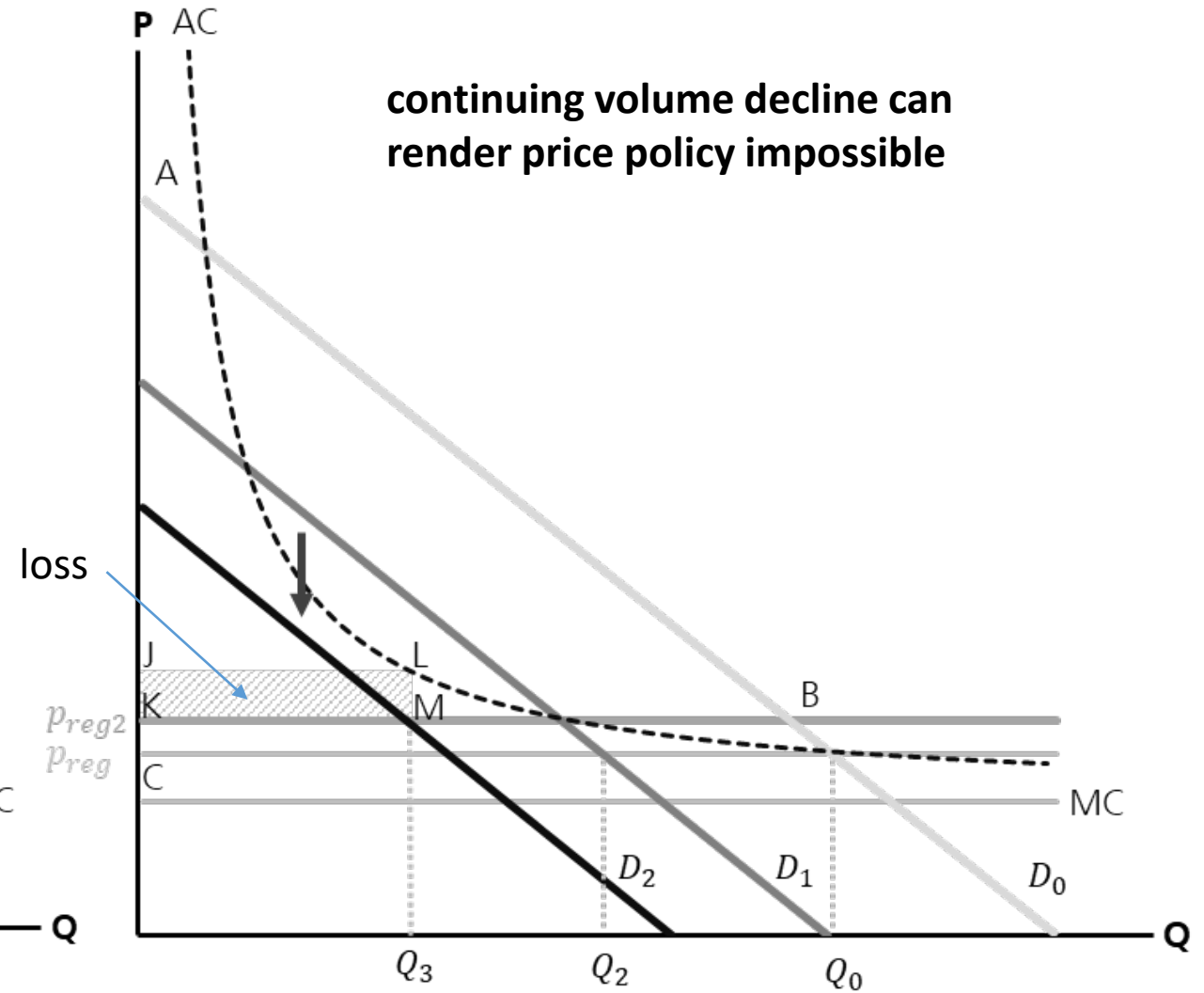
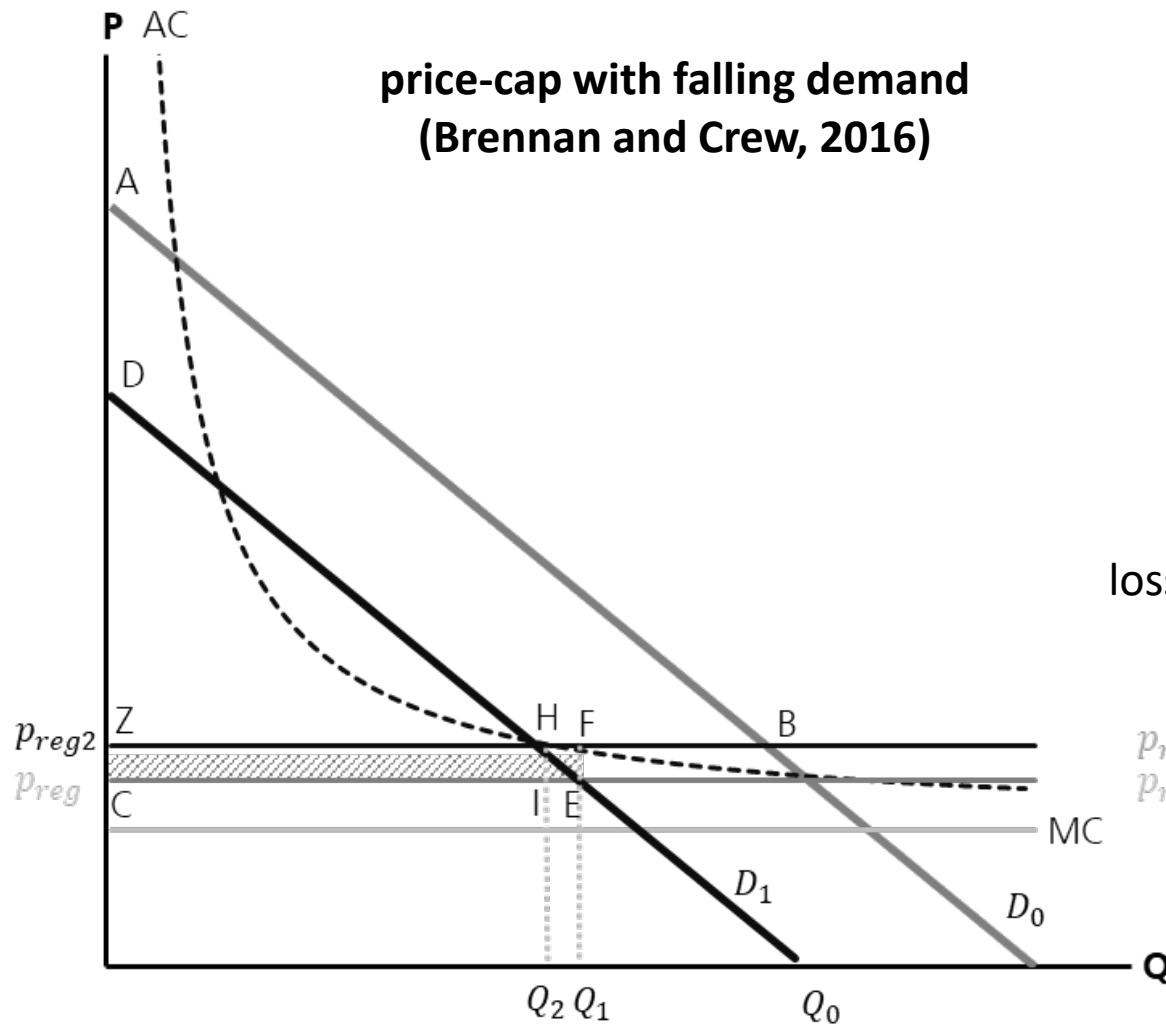


- See also Brennan and Crew (2016)
- USP just covers cost



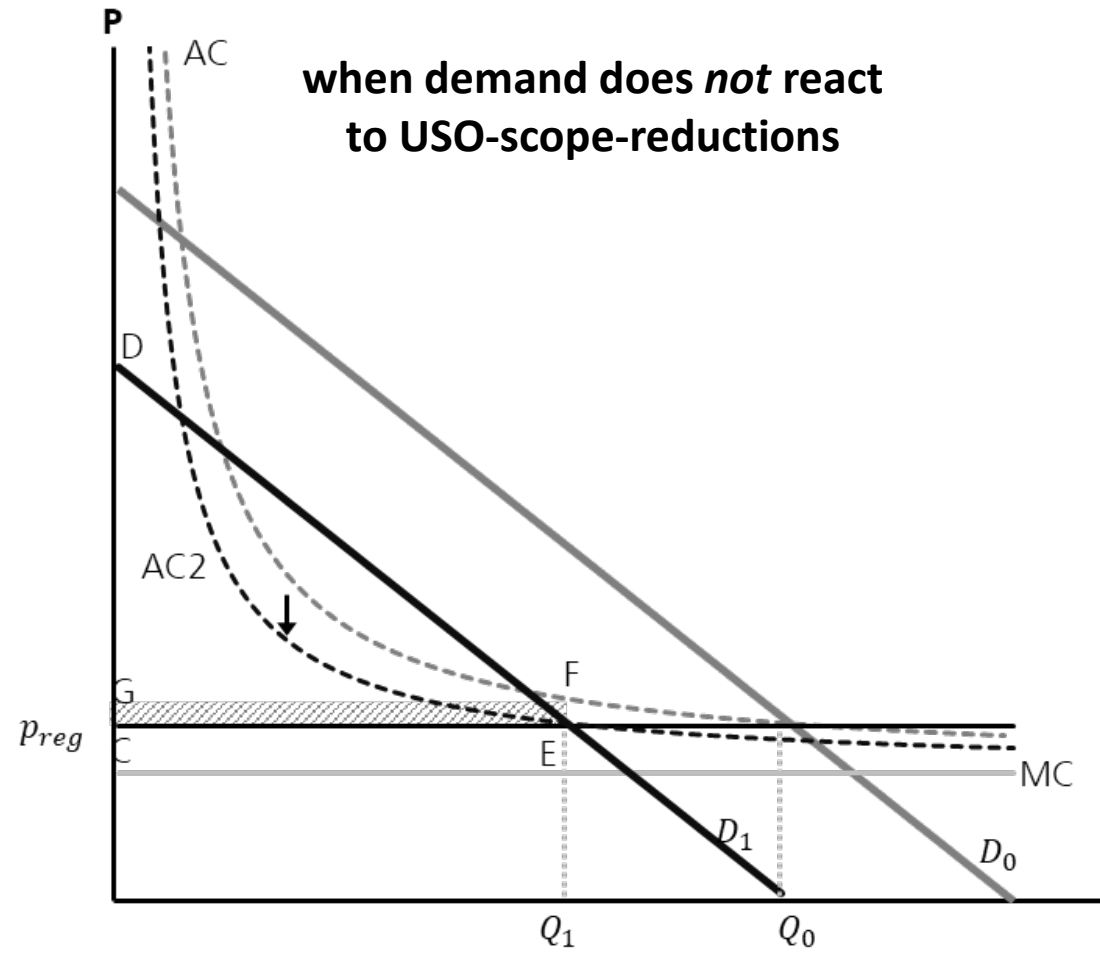
*Assumptions: new technologies are marginal substitutes, operational costs are already optimized, no externalities (network effects), focus on mail market, ...*

# Responses: price policy and its limits

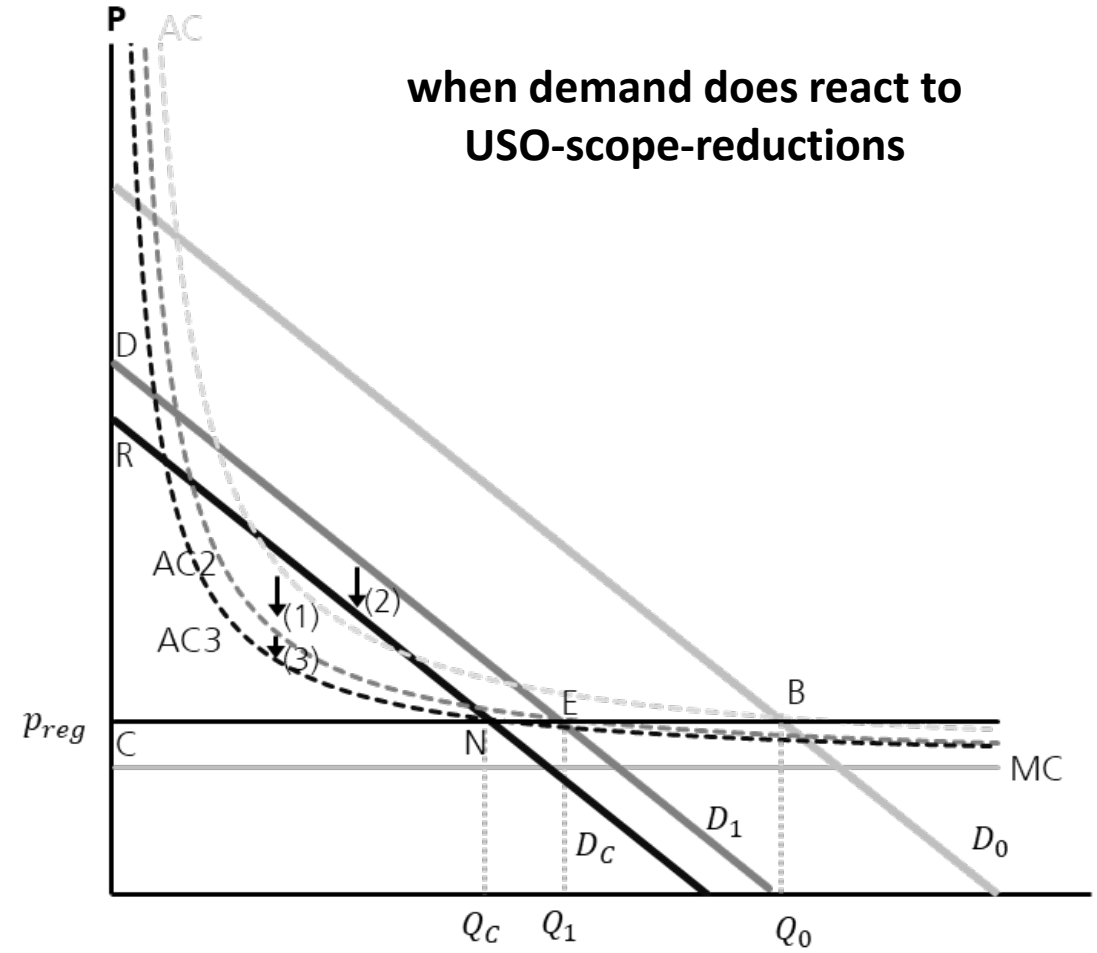


# Response: cost policy and its limits

(cost-policy = USO-scope reduction)

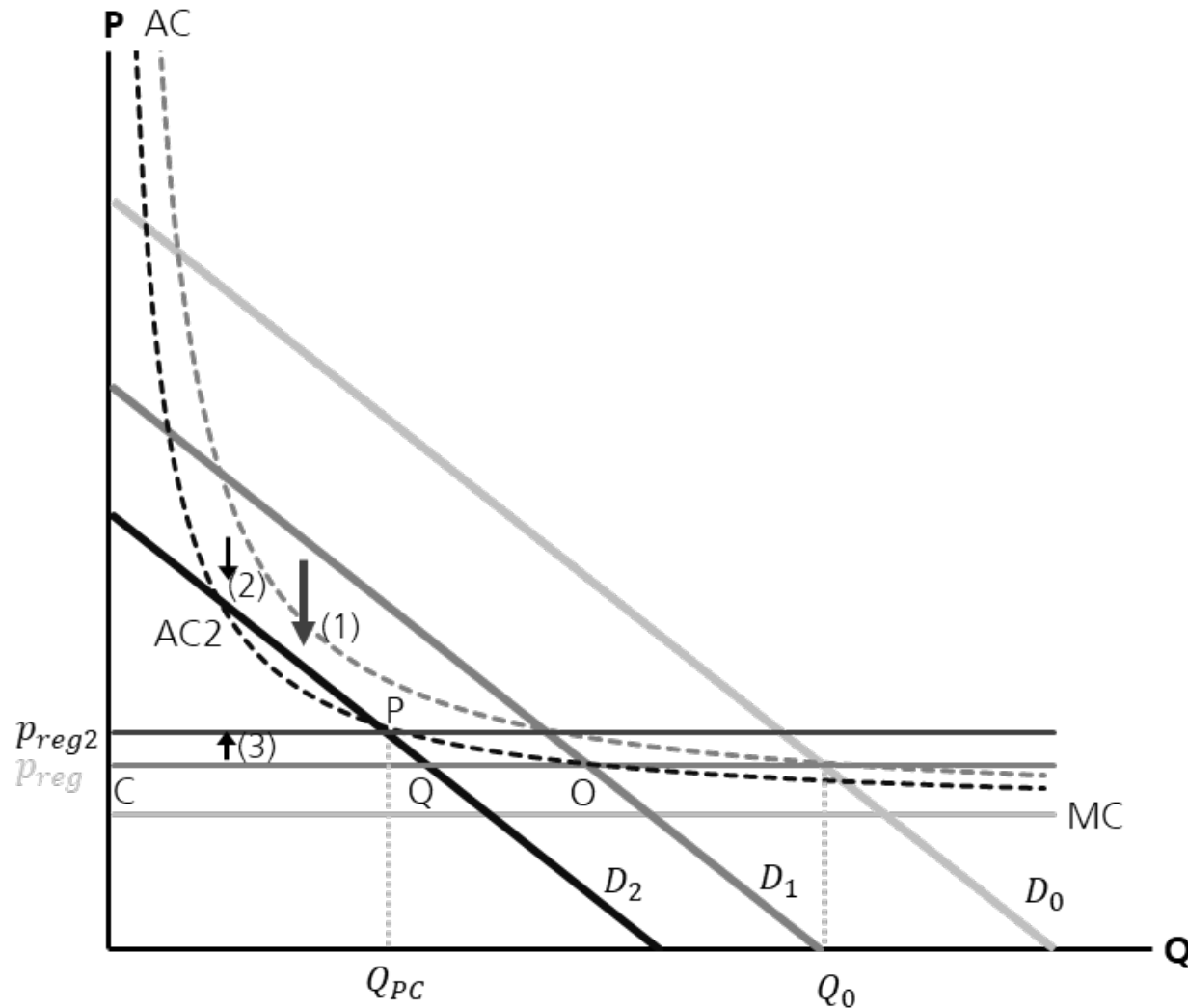


→ when USO-scope reductions have little impact on demand, they are preferable to price policy



→ demand reaction may not be too strong

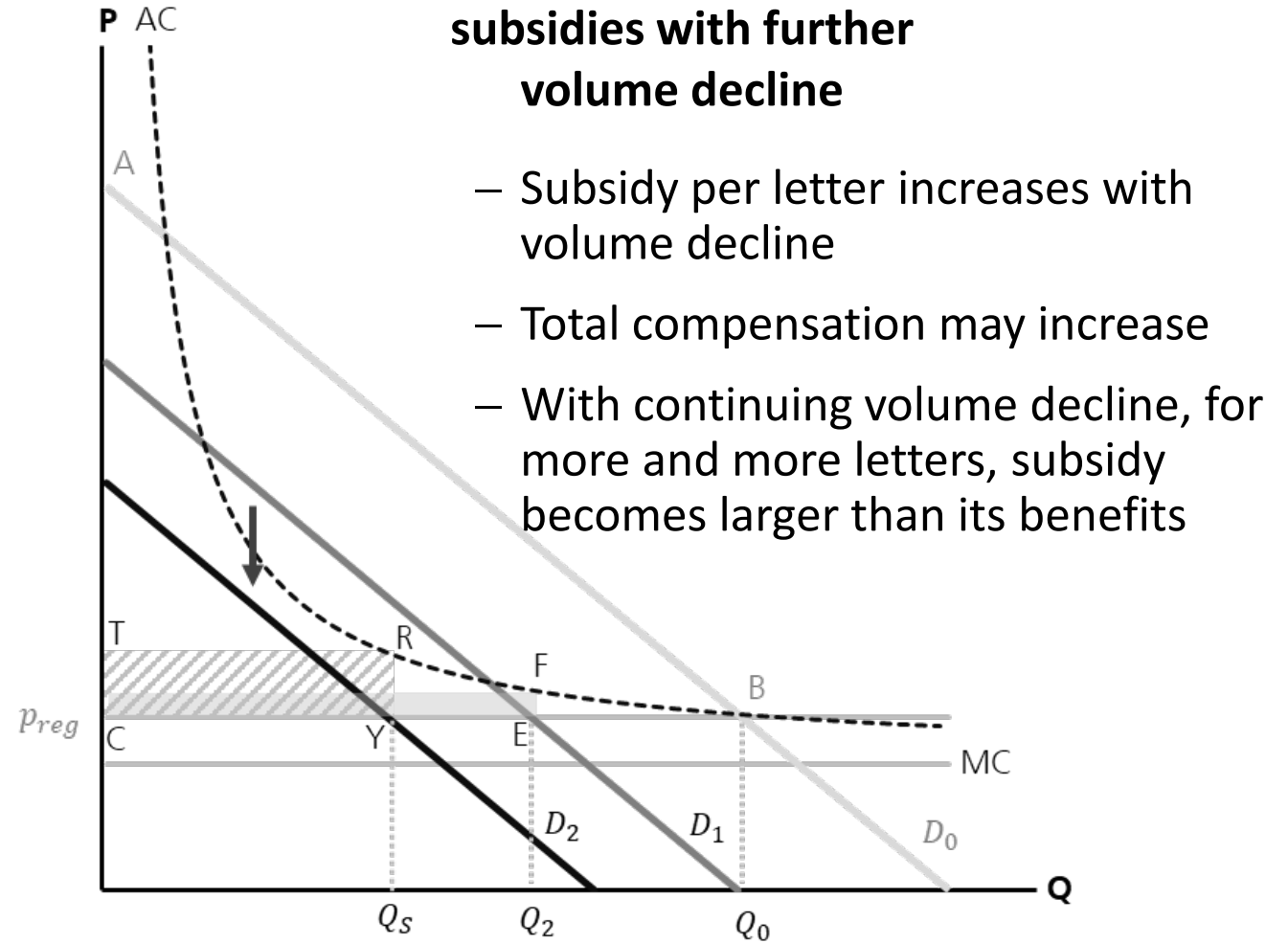
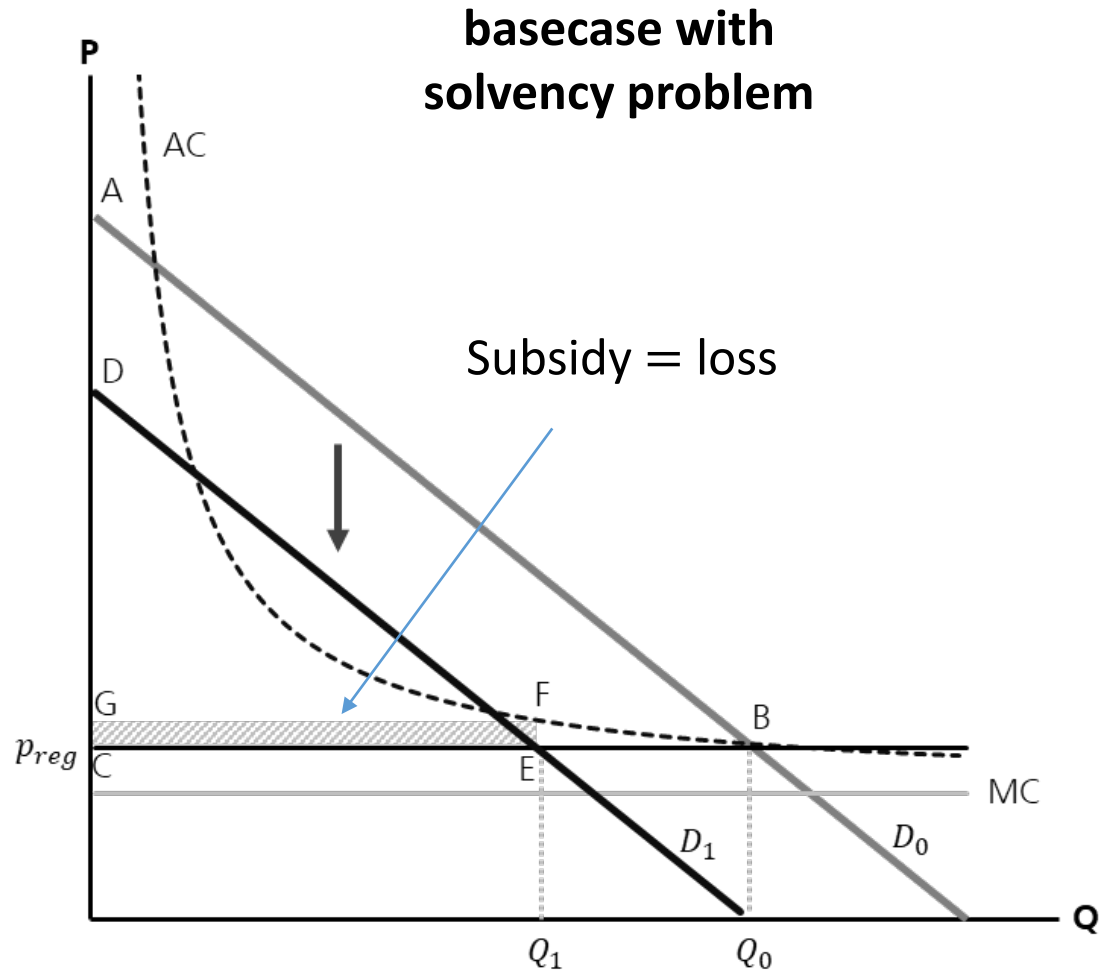
# Combining cost- and price-policy



- cost policy can make price policy possible again
- only possible if demand reacts sufficiently little to cost cuts
- may be used when further cost cuts are hard to implement

# Subsidies (compensations)

Alternative with bad dynamics



# Conclusions

- Regulating a growing market was easy, regulating a shrinking market is difficult
- Regulation needs to adapt constantly to continuing volume decline
  - raise prices, reduce USO-scope, increase subsidies (per letter)
  - “protracted winding-down process of postal regulation”; Hearn, 2018
- No sustainable solution ahead but abolishing the current concept of postal regulation altogether
- (Beware: Analysis rests on many assumptions)



# Thank you.

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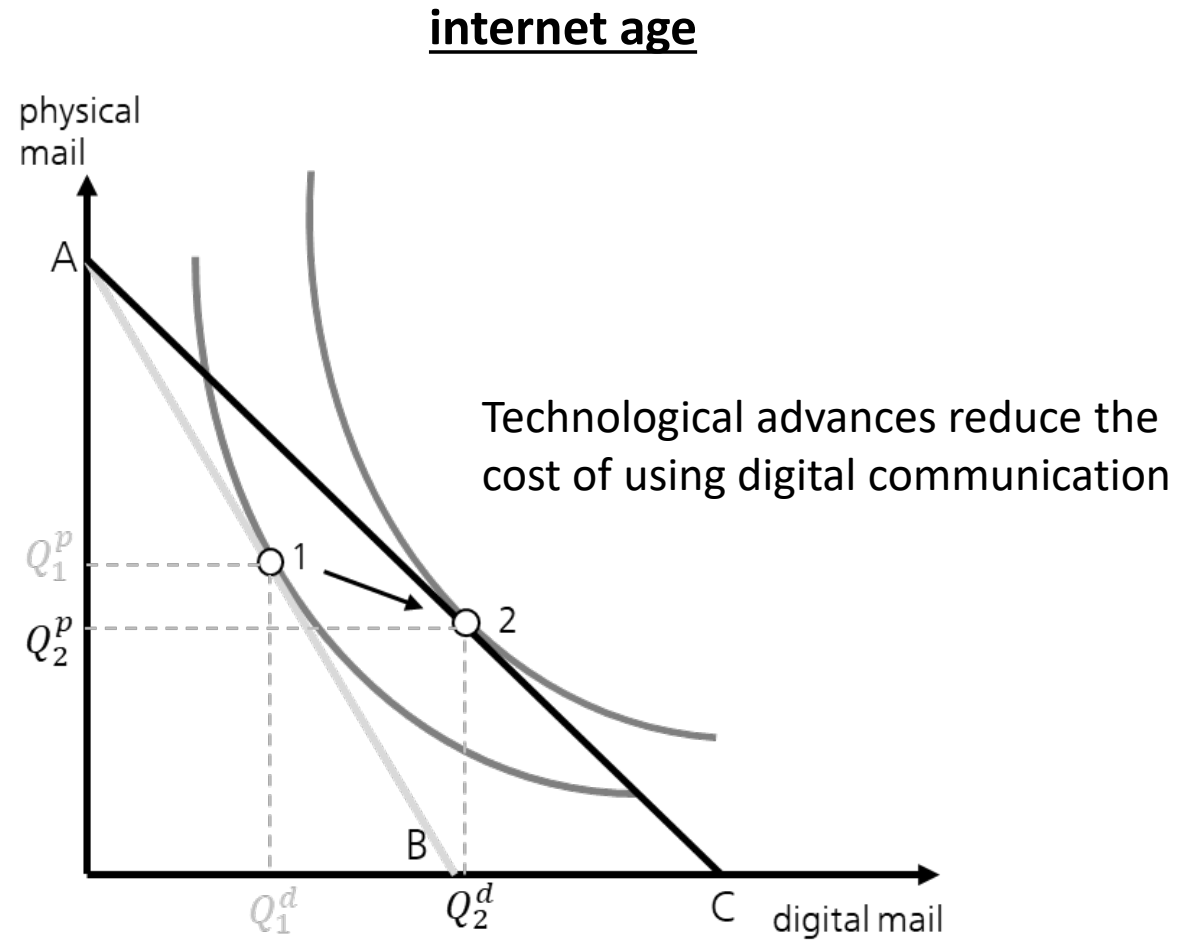
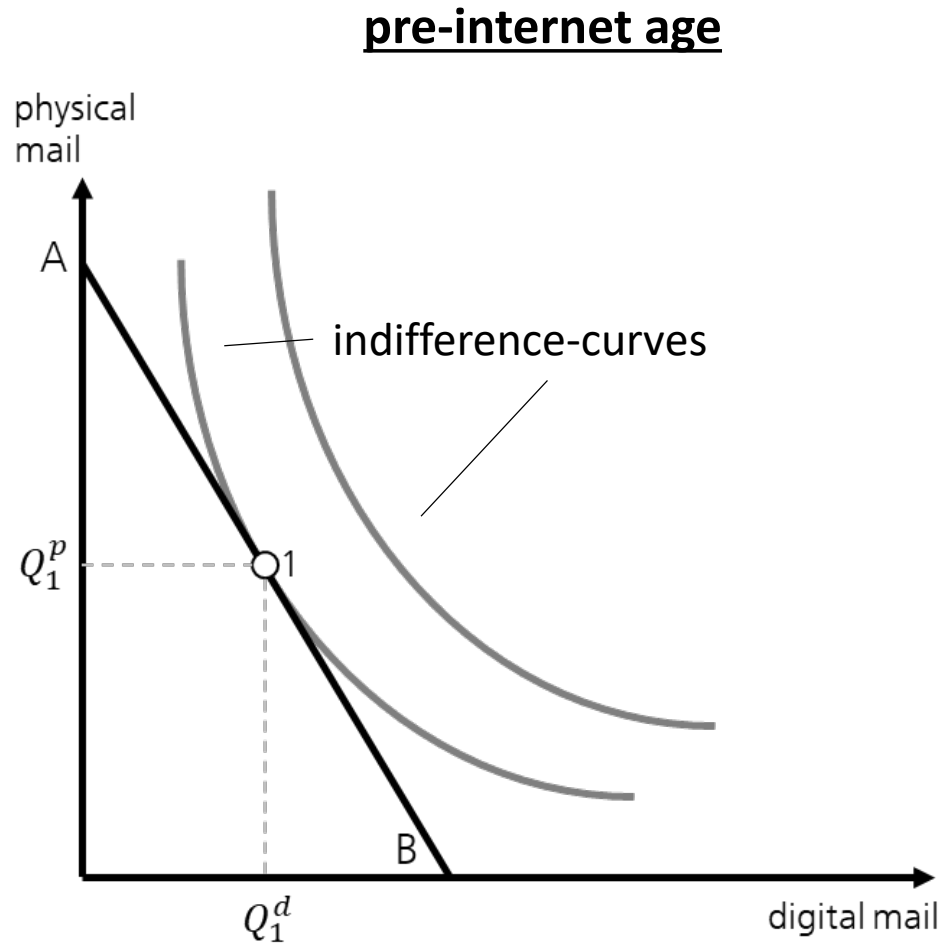
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# Background: What has changed demand?



→ intuition for assuming marginal substitutes (instead of cross-substitutes) (See Brennan and Crew, 2016)

## Conclusion price policy vs. cost policy

- price policy is not possible when volume decline is severe
- the welfare effects of cost policy depend on how strongly demand reacts
- when USO-adjustments (cost reductions) have little impact on demand, they are preferable to price policy