RULES OF THE GAME

How much does politics shape competition and regulation in the mobile industry? Quite a lot, as **MARC BEISHON** finds in a paper that takes a deep dive into the issue

The mobile communications industry attracts an enormous amount of attention for many reasons. But most commentary comprises issues such as market concentration, spectrum, costs to users and not least, the impact of mobility and apps on society. The emphasis is usually on economic and regulatory factors. Now two academics have put politics firmly into the mix by identifying the mobile industry as a test-bed for government intervention in competition, in a paper entitled ‘Political determinants of competition in the mobile telecommunication industry’.[1] Why, they ask, does the price of the same basket of mobile phone services vary around the world from about $10 to $47? Why does the price of a 1 GB mobile data plan vary from $11 to $100? And was it telecoms reform in Mexico that really led to Carlos Slim taking a beating amid average user revenues dropping and traffic increasing? If so, why aren’t more governments enacting this kind of reform?

The interesting point is that they have not set out to look at the mobile sector as such – these issues are not unique to the industry – but it is an ideal subject because it is possibly the most nationally segmented. Each country controls its own communications destiny in terms of setting rules (such as number portability and allowing voice over IP) and allocating spectrum – and unlike other industries, mobile systems are fairly similar globally. So what accounts for the massive differences in prices and how is government power to set the rules of the game used around the world – and in whose interest is it used?

You have to take your hat off to the researchers as they crunched a lot of data to carry out a series of analyses, including the ITU’s ICT Regulatory Tracker, prices from both the ITU and the GSMA, quality of service and spectrum auction information, as well as measures of taxation of mobiles, democracy, and political connections, including corruption. There aren’t many studies that have thrown as much diverse data at the communications sector, and this paper numbers 54 pages of narrative and tables.

Briefly, what they found is that a government’s pro-competitive policy has a significant effect in reducing market concentration and prices. As an example, take the seemingly innocuous number portability – on average, it “reduces the market share of the two largest operators in a given country by 4 percentage points, reduces the price of a mobile-broadband internet plan with a 1 GB volume of data by $10 per month, and reduces the operators’ earnings margin by 4 percentage points”. They note that Israel, whose regulation went from a pro-competitive regulatory score of 17.5 in 2010 to one of 52 in 2012, saw the average revenue per user drop by 33% and local operators’ margin drop by 10 percentage points.

Still the biggest billionaire: Carlos Slim has plans for the economy. But how did Mexico’s plans affect his telecoms empire?

They counter the view, often espoused by operators, that too much competition reduces both prices and the capacity of the industry to invest in technology. They find no evidence for this, and “if anything, the results go in the opposite direction”. Another hypothesis is that governments restrict competition so as to maximise revenues from spectrum auctions. “We test this hypothesis and we find the opposite to be true: countries with more pro-competition rules raise relatively more money in auctions.” And they also ask whether more revenues can be had by taxing monopoly (or oligopoly) profits. “If this motivation was important, it would more likely play a role in countries where it is difficult to raise other forms of taxes (because of poor administration or tax evasion) or where profits are taxed more than consumption. We find no evidence in support of any of these implications.”

Generally, they find that governments tend to favour competition in more democratic countries, “where citizens’ preferences are likely to carry more weight. By contrast, we find that rules appear to be tilted more in favour of producers when these producers are more politically connected.”

They run the numbers on market concentration, prices and regulation, finding that three measures appear more important in reducing concentration and enhancing competition: number portability, tradability of spectrum licences and openness to foreign entry. Three measures that appear more important in reducing prices and margins are availability of voice over the internet, number portability and openness to foreign entry. Could market concentration be good for quality? They do not find strong evidence that more competition leads to higher quality, but they do reject the claim that less competition leads to higher quality.

Harder to quantify are the actions of antitrust/competition agencies, and to put this into play they use a case study approach, comparing the US with Denmark and Germany, as they have the closest regulation. They hint that more generous antitrust in the US results in higher margins for US operators.

Concluding, the political rules of the game (which are influenced by lobbyists) do affect concentration, competition and prices. And a by-product of the research is a lack of empirical evidence of any benefit in transferring part of the consumer surplus to operators, which “should weigh in the current competition debate on both sides of the Atlantic”.

REFERENCE

1 Faccio M, Zingales L (2017). Political determinants of competition in the mobile telecommunication industry. CEPR discussion paper no. DP11794. bit.ly/2uG20lD