From Napster to Distribution Networks

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Distribution Networks

• The internet is a distribution network.
• Other industries with distribution networks:
  – Electricity
  – Telecoms
  – Water
  – Gas
  – Railways
• The basic economics of these industries share similarities with the economics relevant to Napster.
**Liberalisation of Distribution Networks**

- Formerly:
  - State-owned (even the internet)
  - Vertically integrated
  - Monopolies
  - Heavily regulated by government
- Now:
  - Privately-owned
  - Vertically disintegrated
  - Open to competition
  - Re-regulated

**Public vs private ownership**

- Origins of SOEs, MUNIs and government trading departments running distribution networks
  - Desire to bring network externalities
  - Lack of capital in private sector
  - Wasteful competition
  - Lack of compatibility between private systems
- Benefits of private ownership
  - Objectives for industry have changed (to efficiency)
  - Capital, labour and product market competition
  - Competition and private ownership linked
  - Less government of intervention
Re-regulation of Distribution Networks

• Private ownership of monopoly distribution networks implies the need for regulation of prices and quality of service.
• In most advanced countries specific independent regulatory agencies are tasked with carrying out this function.
• In the UK economic regulators such as OFTEL (soon OFCOM), OFGEM, OFWAT carry out this function.
• A central part of their work involves setting RPI-X price controls on monopoly network tariffs for fixed periods of around 5 years.
• In setting regulated prices regulators need to make value judgements about efficiency and equity trade-offs.

Economic Questions raised by Napster

• Are property rights allocated efficiently or fairly?
• How are the basic economics of copyright, the internet and network industries related? (Lecture 3)
• Has the market been designed for the benefit of incumbents? (Lecture 4)
• What sorts of market structures promote innovation? (Lecture 5)
• How can the market power of incumbents be regulated? (Lecture 6)
• What corporate strategies could incumbent firms play faced with innovation in liberalised markets? (Lecture 7)