Public Service new roots & roof: Digitalization & Decentralization

ACCC & AER 2017
Australia – Brisbane 28 July 2017

Jean-Michel Glachant
Loyola de Palacio Chair
Director Florence School of Regulation
European University Institute (Florence, Italy)
You know me already:

My Mom

Not my Mom

& Me

www.florence-school.eu
1 year later: I’m 4Y old

Good old days
Public Service’s roots & roof
60 years later: I’m even older

Public Service... What’s new?
Now please...

Fasten your seat belt:
Take-off
3 step story

Old roots & bones: Public Service “GrandPa” + “New Wine in Old Bottle”
1-Bones are “infrastructure monopoly”
2-”Public Fundamental Transformation” adds meat for roots + new bones
3-Unbundling + Incentive Regulation bring new wine

Waves of innovations: Infrastructures become “modular & digitalized”; consumers self-transform into playing users
1-Infrastructures (made modular by unbundling) accelerate modularity with digitalization 2-Users create value by using > 1+2 dynamic & open nature
3-Regulators create a 3d Level of regulation (surfing on innovation waves)

Five “worlds of regulation”: Governance of “innovation / regulation” takes the lead
(Regulators + Modularity + Entrepreneurs + Users) > spread into 5 worlds?
1-Forums ~2-Innovation Zoos ~3-Communities ~4-Garage Cow-Boys ~5-Big e-Sisters
1st step: Old Roots & Bones > To New Wine

- **Old roots & bones**: Public Service “GrandPa” + “New Wine in Old Bottle”

- **Bones are infrastructure monopoly**: Getting pricing right
  1849: Prices (tariffs) make bridges’ value for society (J. Dupuit)
  1949/56: Optimal pricing for public monopolies (M. Allais & M. Boiteux)

- **“Public Fundamental Transformation”**: Two big non-market issues
  1/ **“Public Choice” new meat** feeding the roots: Public Service Obligations
    Basic Needs > Universal Access
    Fairness > Postal Stamp
    Affordability > Social Tariffs

  2/ **“Transaction Costs” new bones**: new fields open to industry choices
    ~“Remediability” (better law > better market > “Market Design”)
    ~“Governance Structures” (Third-Party contracting for all consumers)
    > Industry could do new things if transactions costs are lowered
What’s a “outside the market” coordination issue to lower Transaction Costs?

My room at Hilton Hotel:

Lovely 😊 Aussie 😊 plugs... seen by a continental EU visitor
1st step: Old Roots&Bones > To New Wine

- **New Wine in *Old* Bottle:** Unbundling +Incentive Regulation

  Unbundling
  
  ~Services to market forces ~Infrastructures to regulation

  Incentive Regulation
  
  “Market-like rewards” push infrastructures managers to perform better & to reveal information to regulators who can share the performances with consumers

- **New Wine in *New* Bottle:** Transaction Costs side

  Markets for services still interact with infrastructures (operation, capacity, & technology choices) > transaction costs issue

  > **New “Market Design” options:** Service Providers, Infrastructures managers & Regulators meet 2 produce “consensus” Market Design
3 steps story

**Old roots & bones:** Public Service “GrandPa” + “New Wine in Old Bottle”
1-Bones are infrastructure monopoly
2-Public Fundamental Transformation adds meat for the roots
3-Unbundling + Incentive Regulation bring new wine

**Waves of innovations:** Infrastructures become “modular & digitalized”; consumers self-transform into playing users
1-Infrastructures (made modular by unbundling) modularity accelerated by digitalization (plastic bones & digital bridges)
2-Decentralisation: Users create value by using >(1+2) dynamic & open nature
3-Regulators create a 3d Level of regulation (surfing on innovation waves)

**Five “worlds of regulation”:** Governance of “innovation / regulation” takes the lead
(Regulators + Modularity + Entrepreneurs + Users) > spread into 5 worlds?
1-Forums ~2-Innovation Zoos ~3-Communities ~4-Garage Cow-Boys ~5-Big e-Sisters
Waves of innovation

- Waves of innovations: Infrastructures become “modular & digitalized”; consumers self-transform into playing users

1- Digitalization accelerates modularity of industry & infrastructures made modular by unbundling (Services / Infrastructures)
Digitalization facilitates creation many “Plug & Play” industry modules, which accelerates innovation inside modules
And guarantees coordination via “Plug & play tools: gates & bridges”

2- Innovation loops B2B & B2C
Users create value by using. Consumers destroy value by consuming. More users: more value for users... & for service providers (or infrastructures)
(1+2) dynamic & open nature

3- Regulators create a 3d Level of regulation (surfing on innovation waves)
Waves of innovation

3-Regulators 2create new Level of regulation: surfing on innovation waves
because Costs & Benefits of services & infrastructures are become dynamic

> Costs have high transaction costs component
   ~ Designing, adapting rules is key to evolution of costs

> Benefits have high “users play” component
   ~ Inducing, following, facilitating play by users is key to evolution of benefits
Waves of innovation

• Organized self-regulation in Forum /> Platforms of regulation for innovations

Regulators react by creating “Open Regulation Forum” which can become real “Reflexive Governance Platforms”.

It requires from Regulators:

*Regulators with high skills
~managers in innovation wave facilitation

**Regulators with legitimacy to do so
~such regulation is loosely defined by law, difficult to review by courts
Waves of innovation

- Waves of innovations: If regulators do not transform their own job into managing “Reflexive Governance Platforms”

*Industry fully self-regulates* (private rules, private standards, private contracting, private punishments, etc.)

*up to full vertical reintegration* by creation of new & private digital infrastructures

**Consumers & Public Service disappear from interplay with industry.**

*Only users still strategically interact*, are taken into account.

Users strongly motivated by niches of “value creation”, can create own “Users Communities”

bargaining with industry and/or creating “Community club niches” - plugged as add-ons to general industry modularity
3 steps story

• **Old roots & bones**: Public Service “GrandPa” + “New Wine in Old Bottle”
  1-Bones are infrastructure monopoly
  2-**Public Fundamental Transformation adds meat for the roots**
  3-Unbundling + Incentive Regulation bring new wine

• **Waves of innovations**: Infrastructures “modular & digitalized”; consumers > playing users
  1-Infrastructures (made modular by unbundling) accelerate modularity with digitalization
  2-Users **create** value by using > (1+2) dynamic & open nature
  3-**Regulators create a 3d Level of regulation (surfing on innovation waves)**

• **Five “worlds of regulation”**: Governance of “innovation / regulation”
  (Regulators + Modularity + Entrepreneurs + Users) **takes the lead**

~1-**Forums**
~2-**Innovation Zoos**
~3-**Communities**
~4-**Garage Cow-Boys**
~5-**Big e-Sisters**
3 steps story

• “worlds of regulation”: Governance of “innovation / regulation”
  (Regulators + Modularity + Entrepreneurs + Users)

~1-Forums (already seen)

~2-Innovation Zoos

Old infrastructures & companies stay in place. No big entry by new comers.
Old infrastructures go digital step by step. In a frame set by regulators.
Ad Hoc “extra candies” for R&D experiments & pilots
+ “Menu of incentive contracts” for deployment.

If strong involvement of users is needed >> Go to Community?
If flow of radical innovation creation needed >> Go to Garage Cow-boys?
If strong innovation management & financing needed >> Go to Big e-Sisters?
3 steps story

• “worlds of regulation”: Governance of “innovation / regulation”
  (Regulators + Modularity + Entrepreneurs + Users)

~3- Community

Users create new governance by combining service & infrastructure usages
innovation with demand adaptation.

Issue with scalability (deployment beyond 1 community)
Issue with coordination (local niches)
Issue with Public Service consumers (demand is embedded into service
production & infrastructure usage. “Pure consumers” have no right)
Issue with dynamic innovation (rights of users exiting 1 community for
different 1)
3 steps story

~4- Garage Cow-boys

Old infrastructures & companies are neutralized by very smart regulation as “open platforms” (New York dream).

Flow of radical innovation creation can come from individual “strongly inventive” pioneers -triggering adoption by users, then increasing value, etc.

Issue with scalability (deployment beyond 1 garage)

Issue with coordination (local garages)

Issue with Public Service consumers (value of innovation is embedded into users adoption. “Pure consumers” have no right)

Issue with privacy & security: How users data & privacy is protected? How integrity is maintained & pirates are barred of hacking?
3 steps story

~5- Big e-Sisters: big self-regulation in private orders/companies can produce, manage & finance flow of radical innovation as long as they control creation of new digital infrastructure & interactions with production new services

Can deliver ~scalability (deployment) ~coordination (infrastructure/services) ~hosting “Pure consumers” when enough “pure users” have created enough value (to their standards) ~Up: to Universal Service, Postal Stamp, No Charge

Issue with privacy: individual “big data” is their gold mine (keeping “independent service providers” prisoners of strategic moves & day-to-day data flows)

Issue with market power: B2B they strategically control access to services; B2C they take enormous share of value created ($1000Bn in ...cash)
How to conclude such amount of novelties?

#Is GrandPa dead! # To be seen in 2022?
2017 – 2022

Already bright visible results in Brisbane...
Thank you for your attention

Email contact: jean-michel.glachant@eui.eu

Follow me on Twitter: @JMGlachant near to 31 000+ tweets

My web site: http://www.florence-school.eu