

7th Conference on  
« The Economics of the Postal Sector in the Digital World »  
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Discussion of Bradley, Colvin and  
Perkins' paper  
*"Network Externalities and the Digital  
Divide"*

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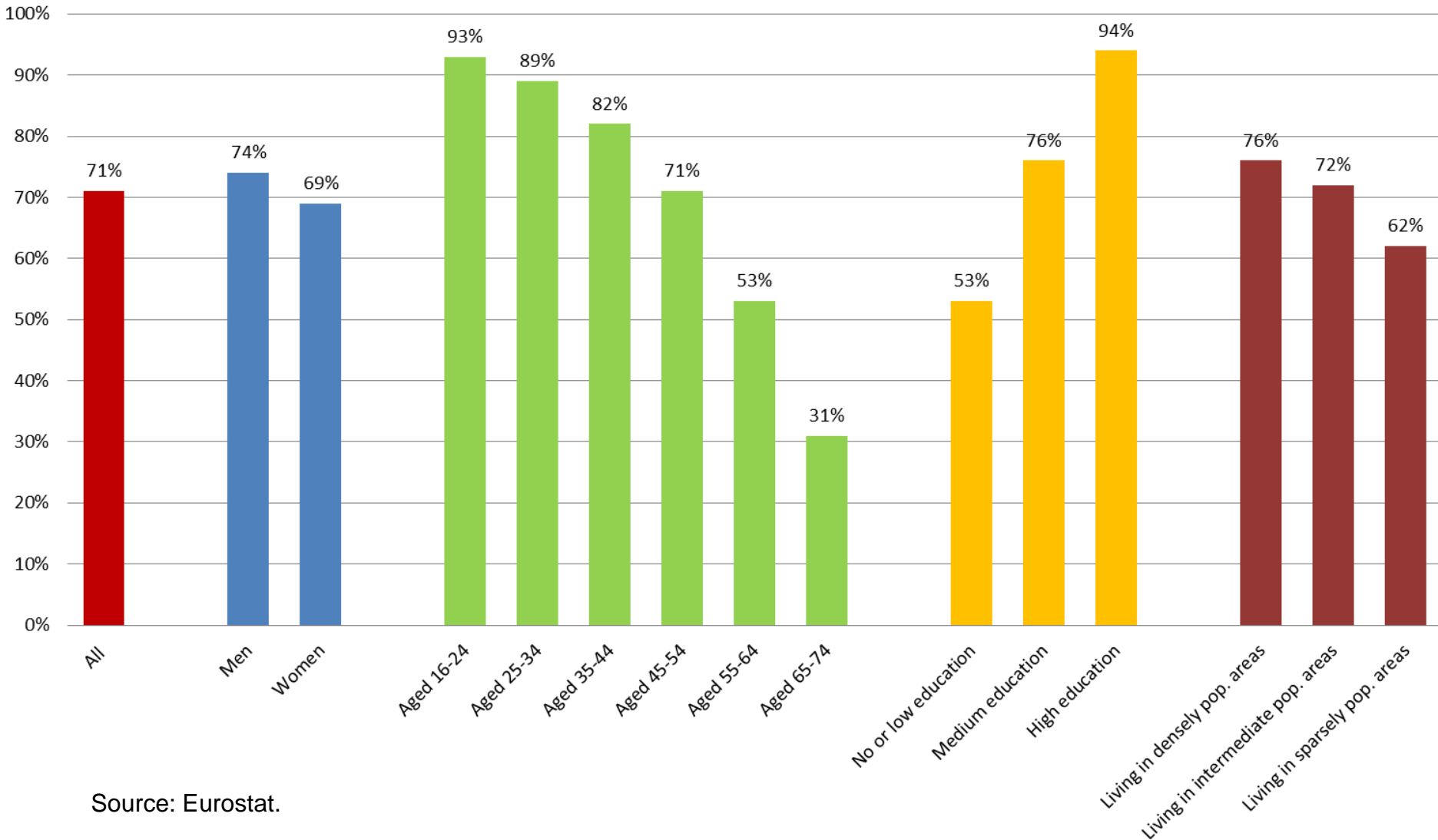
LE GROUPE LA POSTE

# Main results of the paper (1/2): Postal USO and digital divide

- The market equilibrium is sub-optimal:
  - Cross-externalities are not taken into account by individual agents when making their decisions of production/consumption/pricing.
  - Under a break-even constraint, the social optimum is such that high-value recipients subsidize low-value ones.
  - This could justify the implementation of universal service obligations.
- But when the number of high-value recipients decreases (because of the development of alternative means of communication and information), the gap between the market equilibrium and the social optimum (in terms of social welfare) is reduced.
  - This questions the utility of postal USO.
    - If the proportion of high-value recipients decreases further, in other words if the digital divide is reduced, what would be happened?
    - Does there exist a threshold in the proportion of high versus low value recipients for which the social cost of postal USO is higher than its social benefit?

# The digital divide in Europe

**Individuals' use of Internet in EU27 in 2011**  
(% of total number of individuals aged between 16 and 74 years)



Source: Eurostat.

# Main results of the paper (2/2): Signaling the type of recipients, a way to reduce the net cost of USO?

- The introduction of an access fee paid by recipients to participate in the postal platform (and receive mail) has two benefits:
  - It allows the postal operator to raise revenues to help to break-even.
  - It could give to senders information on the true type of recipients they face.
- If the access price is such that only high-value recipients participate in the postal platform, the market equilibrium under break-even constraint generates a higher welfare compared to the one without access fee.
  - Senders send more volume to (only) high-value recipients.
  - They get higher utility due to the positive externality exerted by high-value recipients.
  - Recipients get higher utility due to higher volume.
- This is a very interesting and innovative way to deal with the problem of USO financing.

# In summary

- The development of ICT and the decline of mail volume (due to e-substitution) have two related impacts:
  - Put pressure on the financing of postal USO.
  - Question the social utility of postal USO (regarding its social cost): is it always adapted to users' needs?
- The digital divide observed in Europe and USA pleads for safeguarding USO.
  - But one could expect this digital divide will shrink in the future.
  - USO might be more and more costly for the society.
- Definition, scope and financing of postal USO should be discussed again:
  - Are there more efficient alternative means to fulfill the objectives behind postal USO?
    - A dual USO combining postal and telecommunication services?
  - Are there more efficient ways to finance USO ?
    - By inducing recipients to reveal their type (“recipients pay” vs. “senders pay”)?
    - By introducing more flexible pricing scheme (segmented non linear price )?

# Conclusion

- In my opinion, a very interesting and in some respects innovative paper.
- Puts on the table the question of the intrinsic value of mail (compared to e-mail) and the social utility of USO in a digital world.
- Goes beyond basic principle like “senders pay” and offers new perspectives on the postal business model and new trails for dealing with the financing issue of USO.

*Thank you for your attention!*