Opening symposium Jean Tirole

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Welcome at the ACM. Welcome at the symposium in honor of to the Nobel Prize of Jean Tirole.

Yesterday Jean Tirole held his Prize lecture: Market Failures and public policy. Tomorrow he will actually receive the prize.

In order to honor this important milestone in our profession we organize this symposium in between the two festivities.

After the announcement that the Sveriges **Riksbank had awarded the Prize in Economic Sciences in Memory of Alfred Nobel 2014 to Jean Tirole** it was clear that a lot of people were surprised. Also Jean Tirole himself.

Who is this man and what are his important contributions to economics? Everybody who is active in IO is familiar with his famous text book: “The theory of industrial organizations”, but it is unlikely that someone will get a Nobel Prize for a textbook. That was also remarked yesterday by the person of the Nobel Prize committee who introduced Tirole.

In the press release of the Economic Sciences Prize Committee of the Royal Swedish Academy of Sciences 2014 it was made clear that this price was especially awarded to him because:

“*Many industries are dominated by a small number of large firms or a single monopoly. Left unregulated, such markets often produce socially undesirable results – prices higher than those motivated by costs, or unproductive firms that survive by*

blocking the entry of new and more productive ones. From the mid-1980s and onwards, Jean Tirole has breathed new life into research on such market failures. His analysis of firms with market power provides a unified theory with a strong bearing on central policy questions: how should the government deal with mergers or cartels, and how should it regulate monopolies. "

Tirole has made it clear that it is important to analyze the specific characteristics of markets, before a specific regulatory regime should be implemented. The old school of regulation of privatized companies or dominant companies often followed a simple approach. Install a price cap and you will prevent that consumers will be exploited. As we now all know this way of regulation does not take a lot of important economic variables into consideration. Think of the R&D, investment and increase in productivity.
As Tirole pointed out is his speech yesterday informational asymmetries between the regulated firm and the regulator, the ability of the regulator to commit credibly to a certain regulatory scheme and the independence of the regulator are very important factors in the design of regulation. By making regulated firms accountable for their cost levels the regulator can introduce efficiency incentives in the regulation. By letting firms choose the tightness of regulation, the firms reveal information on their cost levels and efficiency potential.
This of course requires a regulator that can credibly commit to a regulatory scheme and is independent from industry and politics.

As has been pointed out by Paul de Bijl in his article in ESB Tirole has touched upon a lot of other subjects, but the Nobel Prize has been awarded especially for his work on regulation and competition as just mentioned.

Given the fact that his pioneering work on these subjects lies at the heart of the work of the ACM Henk Don and I were very pleased by the initiative of Maarten Pieter Schinkel and Eric van

Damme to organize a seminar on the work of the latest Nobel prize winner. There are at least three reasons why we considered this a good idea:

1. The real impact of the work of Tirole is not well known by many, so it is good to honor the person who has been so active for many years and was relatively unknown until now.
2. In the newspapers there was relative little attention for this French economist. We hoped that this seminar might draw some more attention on the importance of good regulation
3. To show that theory and practical policy should go hand in hand. Tirole has written a lot of theoretical papers, but in the end he always looks for the policy implications of his work. Therefore it is important that in this meeting both scientists and policymakers are represented. My experience at the EUR is that policy relevance is more and more left to the old school economists.

Personally I studied at a university were industrial economics was not part of the curriculum. When I graduated in 1978 macro –economics was the fashion. As a reaction to the economic crisis of the 1980s incentives became more and more important. Supply side economics was all about incentives and the functioning of markets. “Capabilities and incentives” was the credo of the OECD in those days.

In the 1990s privatization and deregulation became more and more important. The principles of the neo classical model became the habit. In this climate Tirole started to work on those cases were the neoclassical model does not always function well and where interventions by the government are necessary. We see these subjects back in our program of today. The first session will be on public procurement and public investments. This session therefore is connected to the famous book he wrote together with the late Jean Laffont from 1993: “A theory of incentives in procurement and regulation”. The next session will be on two sided markets.

The policy element will be tackled more explicitly during the round table on Competition and Regulation. Here we will hear about energy regulation, about regulation in the telecom market

and on regulation in financial markets. All these subjects were also tackled by Tirole in his writings.
At the ACM (the then OPTA) the influence of the work of Tirole was the most obvious in the design of the model to create competition in the telecom markets which was in the beginning of the 1990s characterized by the monopoly of KPN combined with new entrants.
The work of Tirole has influenced the way in which access and interconnection of telecommunications networks is regulated. Here Tirole provided new insights on in particular the need for regulation of interconnection between networks.
A good example is for instance the idea that the incentive of the incumbent to use various non-price tools to foreclose competitors depends on the tightness of access price regulation.
Other examples are his work on the optimal price level of voice call termination and the effects of price discrimination between on-net and off-net calls. This work is reflected in the decisions on call termination tariffs of regulatory authorities all over Europe.

So it is interesting to see how his work still influences regulation in the present telecom market. We will end our meeting after the break with presentations on different subjects which we have called miscellaneous. It will be about e.g. Dynamic oligopoly models; horizontal subcontracting and competition for traders and risk. This again shows the broadness of Tirole's work.

I am glad that so many have responded to the call for papers and speeches. I hope that we have a fruitful afternoon and I now give the floor back to our chairman.