

Comments on McMillan Paper

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As I am not an expert on industrial organization, my comments will be of a general nature.

The paper reviews four examples of public-sector uses of markets and derives several important lessons such as "markets reveal information" and "markets must be well designed". I found that the paper is quite informative, because the author provides us with very clear explanations of complicated issues such as electromagnetic spectrum auctions and the retail market for electricity. Moreover, I basically agree with the author's argument on the lessons to be learned. I have four comments.

My first comment is on theory. The author argues that the desirability of the introduction of a market and optimal market design crucially depend on the characteristics of the goods which will be traded. However, these issues are not addressed systematically. If the author provided us with a general theory on the use of the market, this would be very helpful. Let me give an example. Important characteristics of goods can be classified into several factors. First, difficulties in establishing and protecting property rights are an important factor. In the case of fishery and pollution, the monitoring of the property right is expensive. Second, difficulties in storage and elasticity of intertemporal substitution are another important factor. If it is difficult to store goods, as in the case of electricity, we will have quite volatile spot prices and the introduction of forward markets will be an important issue. Third, the risk of market power abuses is another important factor. If the author drew a figure, or table, in which each axis denotes one of these characteristics,

and located each good in this figure, the theoretical analysis of the paper would become clearer.

My second comment is on the relationship between the use of markets and privatization. The author does not show us explicitly how his argument is related to the privatization issue. If the author elaborated on this, " issue, the reader would be able to better understand the close relationship between this paper and the other papers presented at this seminar. Let me give an example. In the case of industries in which networks for transmission and distribution are important, such as electricity, telecommunications, and railroads, it is sometimes desirable to continue regulating the "wires" business, and privatize the industry through vertical separation. In such cases, the design of the wholesale market is a very important issue.

My third comment regards data on market prices. If some data on market prices were provided in the paper, the author's argument would become more persuasive. For example, I would like to see some figures for the wholesale price of electricity. . International or interregional comparisons of price levels would also be informative. If the author could compare the average price level for the electromagnetic spectrum among countries and analyze what market characteristics affect the price level, this would enhance the study.

My last comment regards international aspects. I think that whether foreigners are permitted to participate in a new market or not, and whether goods are internationally tradable or not is a pertinent topic. I would like to ask the author to consider these issues in his future work.