

An impact of universal service obligation on privatization policy*

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Abstract

This study examines how universal service obligation (USO) affects the privatization policy. To examine this problem, this study assumes asymmetric two regions and two firms compete by the price in one of two regions. It is already realized that without USO (i.e., when discriminatory pricing is admitted), partial privatization is socially preferable given certain conditions. This study concludes that when USO is imposed (i.e., uniform pricing is enforced), full nationalization is always socially preferable. With USO, the pricing in the competitive market is limited and the advantage of privatization does not occur, which is the main reason of the above result. Next, we discuss whether USO increases social welfare. As a result, we demonstrate that when the degree of product differentiation is small, imposing USO decreases social welfare.

Keywords: partial privatization, multi-market competition, universal service obligation

JEL Classification Codes: L11, L13, L93

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