

HELM
TALKS

LECTURE ONE

THE ECONOMICS OF UTILITIES

PRESENTED BY

PROFESSOR DIETER HELM CBE

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TALKS

AGENDA

APPROACHES

- Market failures
- Austrian uncertainty
- Asset-based & systems

SOLUTIONS

- Ignore
- Price & incentives
- Regulation to market prices
- The Austrian solution

SYSTEM FAILURES

- The key failures

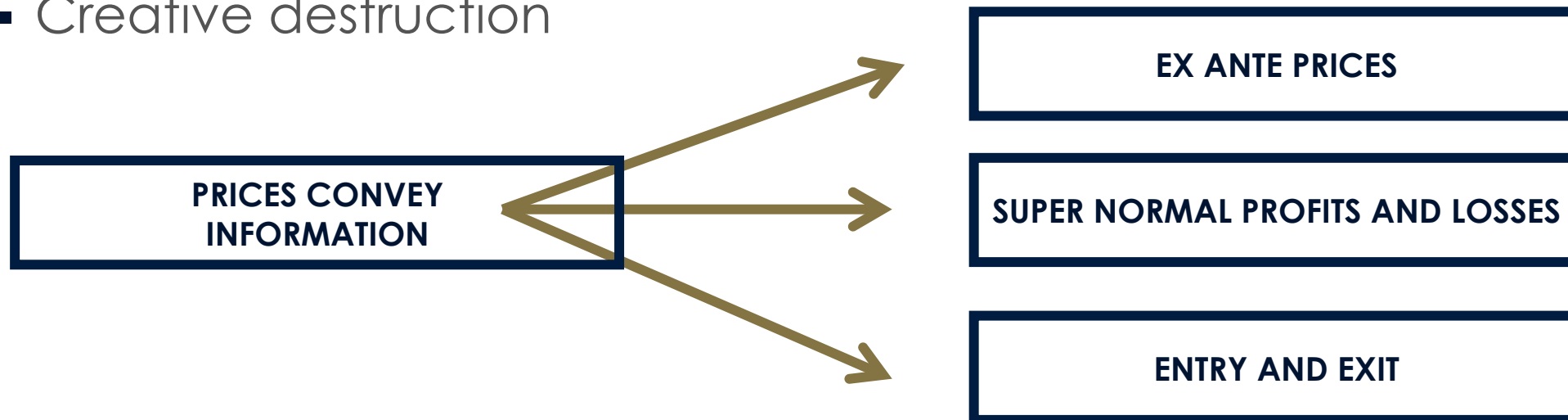
THE MARKET FAILURE FRAMEWORK

- The perfectly competitive market ideal
- Fundamental theories of welfare economics
- Pareto optimality and general equilibrium



THE AUSTRIAN FRAMEWORK

- Competition is dead in perfect markets
- Trial and error
- Profits create incentives
- Creative destruction



ASSET BASED & SYSTEMS FRAMEWORKS

- Core infrastructure systems
- Assets-in-perpetuity
- Capital maintenance
- Non-marginal analysis

CORE SYSTEM ANALYSIS

SUSTAINABLE ASSET BASES

**BALANCE SHEETS & CCA
ACCOUNTING**

INTERVENTIONS AND SOLUTIONS

CORRECTING PRICES



INFO
PREFERENCES

REGULATING OUTPUTS



FIXING FUNCTIONS
FIXING MINIMUM QUANTITIES

REGULATING OUTPUTS



ASSET-BASES
COST-BASES
RATE OF RETURN AND COST OF CAPITAL

THE MAIN MARKET FAILURES

TIME INCONSISTENCY

MONOPOLY & MARKET POWER

EXTERNALITIES & ENVIRONMENTAL IMPACTS

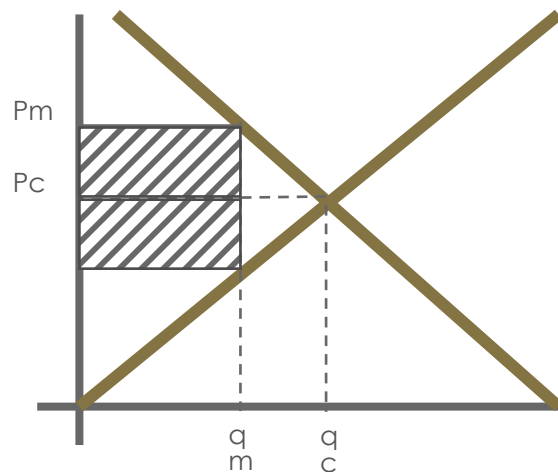
INFORMATIONAL FAILURES

TIME INCONSISTENCY



MONOPOLY & MARKET POWER

I: NEOCLASSICAL VIEW (CONVENTIONAL)



II: AUSTRIAN VIEW

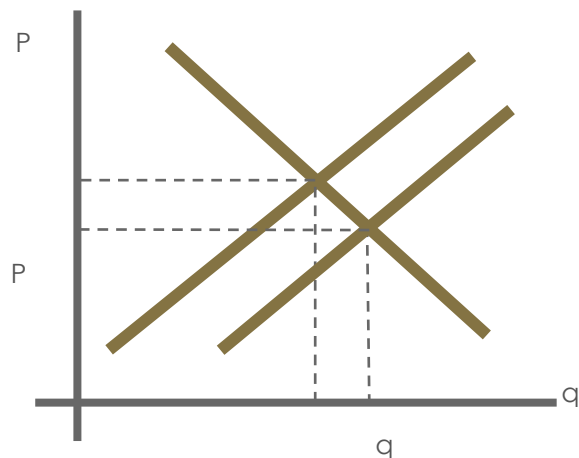
- P_c/q_c not competitive
- Entry & dynamics
- Incentive impacts of profits
- Entrepreneurs and tech change

III: ASSET VIEW

- Sunk fixed costs to asset base
- Operations separate for assets for pricing purposes
- Costs include capital maintenance
- Competitions for CAPEX and OPEX

EXTERNALITIES & ENVIRONMENTAL IMPACTS

I: NEOCLASSICAL VIEW



II: AUSTRIAN VIEW

- Coase and property rights
- Bargaining leads to internalisation
- Polluter or pollutee pays

III: ASSET VIEW

- Natural capital
- Renewables vs. non-renewables
- Thresholds & safe limits & benefits
- Asset base & nature fund + capital maintenance
- Compensation principle

EXTERNALITIES & ENVIRONMENTAL IMPACTS

I: NEOCLASSICAL VIEW

- Probabilities
- Inflation as a commodity
- Expected maximisation

II: AUSTRIAN VIEW

- Conjectures, trial & error
- Incentive properties
- Entry opportunities

III: ASSET VIEW

- Social primary goods
- Public goods
- Citizen entitlements

SUMMARY LECTURE ONE

- **ANSWERS DEPEND ON THE QUESTIONS**
- **EFFICIENCY IS NOT ALL THAT MATTERS**
- **NEOCLASSICAL, AUSTRIAN AND ASSET-VIEW VERY DIFFERENT**
- **MOST REGULATION IS DESIGNED ON NEOCLASSICAL LINES**
- **EXCEPT UK RPI-X IN ITS FIRST 20 YEARS.**

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LECTURE RECORDINGS AVAILABLE AT

DIETERHELM.CO.UK

THANK YOU

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