

Crossing the Rubicon with Harry Trebing

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Reflections on a Long and Special Friendship

My friendship with Harry Trebing, almost a half century old, has been an unqualified joy. I met Harry in the office of Dr. Martin Glaeser at the University of Wisconsin in the mid-1950s. He was then a Ph.D. candidate in public utility economics. My first impression upon seeing his "crew-cut" hair and conventional dress was that here was a future utility executive and defender of the status quo.

To admit that I was wrong is a gross understatement. Although I was correct about his reliance on traditional attire, Harry's commitment is to the general public interest, and to the persistent questioning of the conventional wisdom.

In my discussions with former students, regulatory commission personnel, utility executives, academics, and others, another facet of Harry's orientation usually mentioned is his sense of fairness and balance in all his endeavors. These qualities were the grounding for his administrative and organizational responsibilities to programs, panels, and teaching sessions as director of the Institute of Public Utilities and administrator of the NARUC education program at Michigan State University, to regional programs for regulatory commission personnel, and to numerous other projects.

As editor of the *MSU [Michigan State University] Public Utilities Papers*, Harry provided a forum for varying opinions and positions on the issues and problems of the changing patterns of public utility regulation. It is doubtful whether many of the consumer and environmental concerns raised in these papers would have been addressed in other forums.

As professor of economics at Michigan State, and as a participant in a

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variety of forums, he has consistently provided a comprehensive assessment of the evolution of regulatory institutions in the telecommunications and energy industries. His broad background and analytical ability has enabled him to explore with singular insight the more complex issues and problems of rate equity and the reliability of services.

As behooves an adventurous spirit, Harry temporarily left academe to become a practitioner in the regulatory process. On leave from Michigan State, he served as chief economist in the Common Carrier Bureau of the Federal Communications Commission and chief economist at the Postal Rate Commission. In addition, we worked together on a National Science Foundation grant dealing with competition and regulatory reform in the energy utilities.

Reflective of his fundamental foundation in institutional economics, he served as president of the Association of Evolutionary Economics and is the recipient of the association's Veblen-Commons Award. Harry is currently professor of economics, emeritus, after retiring from Michigan State University in 1992. The majority of his time now is committed to pro bono work on behalf of consumer and public interest organizations.

Those who know Harry are aware of his reservations, to put it mildly, about flying. This has resulted in his driving thousands of miles annually to participate in numerous programs throughout the United State and Canada. An ardent Wagner fan and a member of the Wagnerian Society, Harry also will drive from Michigan to New York City for a Wagner performance at the Met. He has traveled to Bayreuth, Germany, for the Wagner Festival. Knowledgeable about auto mechanics, Harry collects antique cars and, for good measure, also collects oriental rugs.

Harry's lively, intelligent wife, Joyce, an exceptional organizer in her own right, has been a constant support through the years. Harry and Joyce are the parents of two grown sons and the grandparents of four boys.

It is no simple task to distill the qualities of such a man; nonetheless, it is not difficult to discern the basic values underpinning Harry's support for a diversity of views in controversial matters and the furtherance of basic democratic principles in general. In short, Harry is a true gentleman, possessing a brilliant mind, tremendous vitality, and unfailing good humor, always underlined by his uncompromising integrity. It is for these qualities that Harry is respected and admired, and justly so.

Intellectual Orientation: An Appreciation

Crossing the intellectual Rubicon with Harry Trebing is to know that one is well armed with a historical perspective, a comprehensive command of

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the relevant facts, and the analytical power to discern the evolving forces of economic power.

While Trebing's teaching and other professional activities relate to public utility regulation (or lack thereof), in fact, his writings and other endeavors reflect a broad grounding in neo-institutional economics. The structural foundation of his work is in the institutionalist tradition, and as such, part of a new generation of heterodox economists. In short, he has rejected the theoretical framework of the orthodox economists as suffering from cultural lag, a set of false assumptions, and a lack of realism.

Trebing's institutional approach serves as a guidepost to his efforts to explore the important public utility issues of the impact of tight oligopoly and the lack of effective competition. In an article examining the breakdown of meaningful coordination in public utility industries, he detailed the benefits of a high degree of coordination between a capital-intensive supply network and diverse patterns of customer usage. Trebing stressed that effective coordination enhances the possibility of network economies of scale, scope, joint production, and pooled reserves.

In the period from 1946 to 1968, coordination was achieved through public enterprises or private monopolies subject to price and earnings regulation. After 1968, a variety of external shocks resulting from the country's exposure to periods of under- or oversupply, low- to high-cost suppliers, and cumulative evidence of poor management caused a virtual collapse of the coordination function.

Trebing concluded that if regulatory intervention was limited, new entry would be restricted and oligopoly profits would be sustained. He detailed the significant negative effects of tight oligopoly as follows:

1. Collaborative strategies through alliances, joint ventures, and mergers would increase industry concentration and reinforce oligopolistic behavior;
2. Instead of price tracking costs, the price would be a function of the strategies of the oligopolistic firms and the bargaining power of particular user groups; and
3. Profit levels would be higher than under traditional rate base/rate-of-return regulation or effective competition.

His suggestion is to implement more direct and purposeful regulatory intervention. He advocates structural separation where network economies and industry-specific barriers promote high concentration. The network will remain under regulation, but the marketing of services can be divested and deregulated. The basic services to residential and small commercial customers will remain under cost-based regulation.

Another facet of Trebing's writings relates to the turbulent changes in telecommunications. He is dismayed by the dominance of the neoclassical economists in public policy. He emphatically rejects their prescription of deregulation of private carriers and privatization of government-owned telephone systems. Further, rejecting the neoclassical arguments that efficiency gains will result from this approach, he challenges the idea of relying on new technology to overcome traditional barriers to new entrants and create new supply options, greater competitive services, and new equipment markets. His institutional overview leads to the conclusion that the oligopolistic telecommunications market is one where technology is vulnerable to manipulation by the dominant firms, which have market power and influence. He emphasizes that imperfect markets are not self-correcting, and that government intervention must assume a positive role.

Trebing's sensitivity to institutional change and the problems of protecting residential and small commercial consumers from exploitative rates in electric power supply opens up another area for study. Deregulation, vertical deintegration, unbundling, mergers, and acquisitions are the major structural and institutional changes that are transforming the electric utility industry and threatening continued universal service at reasonable rates. After the Energy Policy Act (1992) opened the electric transmission network to potential rivals, regulation could no longer serve as a source of protection for small consumers. As Trebing has pointed out, electric utility management reacted and moved aggressively to promote profit growth and secure its position in a changing industry. The following patterns emerged:

1. Electricity supply was divided into two categories—kilowatt hours as a commodity, and transmission and distribution as a service;
2. Relaxed regulation at the national level permitted the strongest utilities to establish a regional or national presence outside their traditional service areas;
3. The move toward privatization in both industrialized and developing countries created new opportunities for utilities to establish an international presence; and
4. Lax antitrust enforcement and the prospect of weakening the Public Utility Holding Company Act created incentives for mergers, acquisitions, and alliances.

In light of the vulnerability of residential and small commercial customers to exploitative rates and uncertainty of service, Trebing has examined various protective options. One is the use of a purchasing agent who

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can act on behalf of residential and commercial customers in the purchase of electricity and gas.

Another option is auctioning, which may take the form of auctioning the franchise to induce prospective suppliers to serve a given market, or may involve local groups inducing bidders to supply services. For the bidding/auctioning process to succeed, Trebing has emphasized the following: (1) there must be no collusion among bidders; (2) there must be adequate consumer control; (3) there must be a clearly defined price by which to judge the successful bid; (4) there must be a determination of the appropriate franchise period for the bid award; and (5) there must be a clear determination of the customer base.

A further traditional option for protecting residential and small commercial customers is municipal ownership. There are many new incentives for municipal systems to pursue buyouts of investor-owned distribution systems. The municipal system can act as a purchasing agent and can provide multiple services, such as electricity, gas, telecommunications, cable, and home security.

Another option explored by Trebing is the functional separation by line—of business, and the critical need for the creation of an independent network in the electric industry. To maximize the number of buyers and sellers, it is necessary to develop a genuinely independent network or power grid. The network must have common carrier status and serve all customers, and it must be under regulatory authority. He foresees that such an arrangement would be strong incentive to expand usage of the system, minimize bottlenecks, and develop a rate structure that would promote overall efficiency.

Trebing concludes that as long as the electric industry remains highly concentrated, the prospect of effective competition protecting residential and small business customers is an illusion. He further contends that reliance on potential entry by new suppliers is a delusion.

Conclusion

A recurring theme in Trebing's discussions, lectures, and writings is the importance of market power in economic decisions. He rejects the assumptions of orthodox economic theorists that unfettered, self-correcting markets will provide optimal allocation of resources and pricing.

As a committed institutional economist, Trebing has a clear understanding of the central role of market power in the allocation of resources, the distribution of income, and the related aspects of economic efficiency.

There is no doubt that wealth buys power, and this undermines the illusory contentions of the free-market economists.

Trebing's overriding conclusion is the need for a reaffirmation of a meaningful role for government and effective social regulation.

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