

# THE HIGH COST OF NEW WIRELESS REGULATIONS

## A FACT SHEET BASED ON A NEW STUDY BY DR. DEBRA ARON

In June 2002, the California Public Utility Commission issued a broad new set of proposed regulations that would impose a series of mandates on wireless telecommunications providers.

In light of California Governor Gray Davis's call for the creation of an Office of Economic Development within the PUC to review the impact of proposed regulations on California's economy, it is appropriate for the PUC to examine the potential consequences of its proposed new wireless mandates.

Dr. Debra Aron, a professor of economics at Northwestern University and a Director of the economic consulting firm LECG, recently released a detailed economic analysis of the PUC's proposed wireless regulations. In it, Dr. Aron estimates that the PUC's proposed rules could:

- **Ultimately add nearly 10% to the average wireless bill;**
- **Cost California's economy up to \$2.3 billion a year in lost growth;**
- **And could result in more than 12,000 job losses in the state.**

### 10% PRICE HIKE FOR CONSUMERS

In highly competitive markets such as the California wireless market (each of the state's 25 area codes has at least 5 wireless carriers), regulatory costs ultimately get passed to consumers through higher monthly bills.

- "Because the wireless market is vigorously competitive, this [cost] increase can be expected to be passed on to consumers in the form of higher prices. Thus, the \$1.1 billion annual cost [to implement the proposed rules] equates to about \$5.47 per customer per month or approximately \$69 per customer per year in higher prices, which is nearly a 10% price increase on the average customer's bill."

### A \$2.3 BILLION PER YEAR BLOW TO CALIFORNIA'S ECONOMY

As higher costs reduce the attractiveness of providing wireless service in California, companies will have less incentive to invest in the wireless infrastructure. This decline in investment will hit not only wireless companies, but also the manufacturers of switches, fiber optics equipment and other wireless gear – a considerable potential blow to California's anemic economy.

- "The potential deadweight loss of consumer welfare due to the carriers' costs of implementing the rules exceeds \$2.3 billion annually, consisting of \$1.1 billion per year in bill increases ... and \$1.2 billion per year in discouraged consumption."
- "The proposed rules would decrease the level of infrastructure investment relative to the amount that would be invested in the absence of the rules for two reasons. First, the rules may decrease carriers' ability to invest by diverting available cash into rule

compliance. Second, the rules would decrease carriers' incentives to invest by reducing the attractiveness of providing wireless services to California customers."

### **OVER 12,300 LOST JOBS AND UP TO \$615 MILLION IN LOST WAGES**

Regulatory mandates won't just impose higher prices and reduce incentives for investment – they could also cost thousands of Californians their jobs.

- "By increasing the cost of wireless services, and therefore reducing wireless usage in California, the proposed rules would cause the output of the California economy to fall by up to \$2.3 billion per year, costing California up to 12,300 jobs. These jobs would be lost in the wireless industry, as well as industries supplying products and services to wireless carriers."
- "The results also indicate a loss in labor earnings of between \$307 million and \$615 million in California ..."

### **THE NEXT STEP FOR THE CALIFORNIA PUC**

Before moving ahead with any new regulatory mandates – especially ones as potentially costly as the PUC is considering for the wireless industry – regulators should follow Governor's Davis's advice and analyze the economic impact on California.

- **"... before the Commission adopts any rules, there should be, at a minimum, an attempt to assess their costs as well as their benefits."**