

WILL THE CALIFORNIA PUC'S PROPOSED WIRELESS REGULATIONS HELP OR HURT CONSUMERS?

A FACT SHEET BASED ON A PAPER BY THOMAS W. HAZLETT, PH.D., SENIOR FELLOW, MANHATTAN INSTITUTE FOR POLICY RESEARCH

California's Public Utility Commission is considering regulations that would strictly regulate the relationship between wireless operators and their customers. These regulations have been developed with no analysis of their economic consequences or their impact on consumers.

In a new study, economist Thomas Hazlett, a Senior Fellow with the Manhattan Institute for Policy Research, examines the state of the wireless market and concludes that the CPUC's proposed regulations will hurt consumers through higher prices and diminished competition between wireless providers.

THE STATE OF THE WIRELESS MARKET

According to the Federal Communications Commission, **the wireless market exhibits vigorous competition** that is generating lower prices, innovation and increased diversity of service – all of which is taking place without federal or state regulation.

- From 1994-2001, the number of wireless subscribers increased by nearly 500%; minutes of use skyrocketed by 1,596%; and the cost per minute fell by over 73%.
- “This occurred without any state regulation of rates and without the service standards the CPUC is now considering.”

THE INFORMED CONSUMER

Consumers are well informed about their wireless service options and show little interest in obtaining the type of information the California PUC is demanding on their behalf or gaining the service restrictions that CPUC seeks to mandate.

- “To jockey for position, firms are forced to provide customer information that is deemed interesting and helpful *by consumers*.”
- “Most wireless customers evince modest demand for extensive technical or legal detail regarding service options. ... By checking with friends, neighbors, or co-workers, they ascertain how well rival wireless systems work in the unique circumstances they expect to apply to their location and usage pattern.”
- “If the median [wireless] contract life is two years, at least 65 million buyers with *detailed knowledge* are shopping in the market annually. These consumers possess specific information about coverage areas, signal quality, equipment functionality and ease of use, customer service, and billing practices that obtain to their particular circumstances.”

WHAT CONSUMERS WANT

Wireless customers **enjoy market rivalry** that provides them with a choice of services, rate plans, and network quality. Consumer gains are continually being registered as wireless carriers upgrade systems, investing billions of dollars to introduce new services, from Internet access to photos to messaging to one-touch dialing. This competition delivers benefits – as evaluated by customers.

- “Drawing up a list of *things phone users should know*, a detailed set of instructions, or an exhaustive description of available rate plans may be of little value to users and, hence, to the operator.”
- “If it were straightforward to devise a standard format that provided customers the information they valued when making a purchase, competitive firms would reliably find that solution. But purchasers typically do not shop for ‘complete’ data. They want quick answers to key questions and are happy to economize on their search costs by letting brand-name reputation supply much of the quality assurance.”
- “Importantly, no one-size-fits-all optimum exists. Rather than converging on a rigid standard, the market offers many variations.”

REGULATION POTENTIALLY HARMFUL TO CONSUMERS

There are no compelling economic reasons behind the California PUC’s proposed wireless regulations. On the contrary, they will hurt consumers by increasing the cost of wireless service and diminishing competition in the wireless market.

- Regulations currently being considered by the California PUC will “increase costs for [wireless service] buyers” and result in “diminished” competition between operators.
- “Absent market failure, forcing suppliers to provide additional “information” or “services” is either wasteful (as in the printing of large documents that customers do not read) or significantly detrimental to consumer interests (as in the reduction of sales effort, and hence competitive rivalry, because of increased marketing costs).”
- “Market power is not a compelling rationale for wireless regulation by the CPUC. Not only does abundant evidence of robust competition exist, but federal responsibility for competitiveness is clear ...”

“The question for public policy ... is not how to pursue a perfect, zero disagreement world, but how to maximize aggregate consumer welfare.”