



# It's No Time to Regulate Wireless Telephony

JOHN W. MAYO

**T**he FCC mandates that cellular customers can take their telephone numbers with them when they switch carriers. Shouldn't customers also be able to take their phones with them, moving, for example, an iPhone from AT&T to Verizon? Many think so and have been suggesting that this and other complaints merit the intrusion of regulation and antitrust. Not so.

Though appealing on their surface, calls for regulation are simply unwarranted. If you take a bird's eye view, the industry appears to be performing well, competition wise. There are good

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reasons that many handsets are not portable. If and when those reasons disappear as recent moves by Verizon suggest they might, then competition will bring us portability and many other consumer benefits as well.

## A BIRD'S EYE VIEW OF WIRELESS COMPETITION AT WORK

**C**ritics of the wireless industry, such as Timothy Wu, point toward what they see as a limited number of mobile broadband providers, and argue that when industries are concentrated competition will be less than robust. In mobile markets in the United States, most consumers have the choice among four national providers, all of which have deployed their facilities throughout the country, as well as several independent resellers of these underlying facilities that compete for retail consumers' patronage.

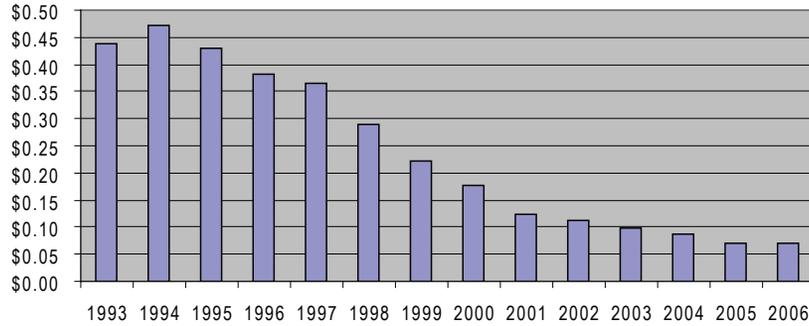
Is this too few for healthy competition? Evidence on prices and output suggest otherwise.

The best measure of price involves an examination of revenues per subscriber per month per minute of use. As shown in Figure 1 (see next page), this price has fallen dramatically from nearly 50 cents per minute in the mid-1990s to 7 cents per minute at the end of 2006. These price changes reflect both the expansion of spectrum licenses through competitive bidding and vigorous rivalries among the wireless carriers.

U.S. prices also fare well when considered against international benchmarks. As seen in Figure 2 (see next page), U.S. customers enjoy some of the lowest wireless prices in the world. These lower prices have, most certainly, contributed to the voracious consumption of minutes (between 700 and 800 per consumer per

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**Figure 1**  
Price per Minute of Wireless Usage



Source: *Annual Report and Analysis of Competitive Market Conditions With Respect to Commercial Mobile Services*, Table 10, Eleventh Report, Federal Communications Commission, released September 29, 2006; and *CTIA's Wireless Industry Indices, Year End 2006 Results*, Table 111, released May 2007.

month) by Americans relative to their European counterparts (who typically consume between 100 and 300 minutes per month).

While prices for wireless services have declined, it is not for lack of demand. Indeed, the numbers of wireless subscribers and output have exploded since wireless telephony hit the scene. The number of wireless subscribers in the United States has grown ten-fold in the past decade to over 243 million—an increase of over 25 million in 2006 alone.

Part of the reason the industry is so competitive is the willingness of customers to switch

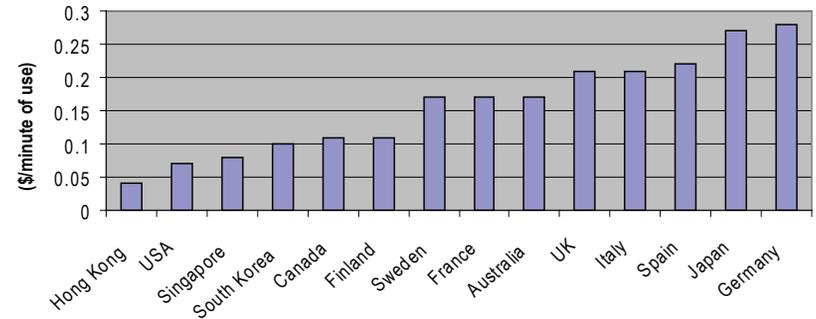
carriers. During 2006, some 31 million subscribers voluntarily disconnected their wireless service to switch to another carrier. This extraordinary “churn” means that each firm must constantly strive to maintain attractive pricing and offer new and innovative features to consumers lest its consumers—by the millions—switch to an alternative provider who will.

#### BUNDLING HANDSETS AND WIRELESS SERVICE

If the broad perspective of the industry points toward vigorous rivalry among the wireless providers, then what are we to make of the complaints that carriers have acted to deny consumer benefits by preventing them from separately purchasing telephones and wireless service?

There are a couple of reasons that we don't see much phone portability today, and neither point to a failure of competition. First, there are competing and incompatible technology platforms. Some carriers like Verizon have chosen the CDMA standard, while others like AT&T have chosen GSM. A GSM phone will not work on a CDMA network just like a Ford crankshaft will not work in a Chevrolet. As such, a customer of a CDMA phone cannot simply show up at a GSM wireless provider and reasonably demand that the carrier provide wireless service for his CDMA phone. Thus, each mobile service

**Figure 2**  
International Comparison of Wireless Prices



Source: *Annual Report and Analysis of Competitive Market Conditions With Respect to Commercial Mobile Services*, Eleventh Report, Table 12, Federal Communications Commission, released September 29, 2006.

provider must work with handset manufacturers to create phones that work on its network. Because consumers want lots of features—some want a flip phone, others want a smart phone, still others want phones with big buttons—carriers have incentives to support a wide variety of handsets. It is encouraging then that a recent survey documented some 700 handset devices sold in the U.S.

Second, while wireless service providers' networks are generally made more valuable by the proliferation of consumer-satisfying handsets, each carrier must necessarily exercise caution in the phones that it supports. After all, consumers have come to expect that their wireless carrier, which serves as the post-purchase point of contact, will support not only the wireless service but also the handset and any applications on the handset. Variations in design, features and functionality of handsets impose significant costs on wireless service providers, degrading not only the quality of service experienced by the customer with the poor phone but also other members of the network with whom she speaks. For example, if under-powered handsets are permitted onto a carrier's network the result is quality degradation. "Can you hear me now?" The

carrier will certainly bear the blame instead of the handset manufacturer. And, in this instance, the carrier may be required to compensate for the reduced handset quality by more densely populating its network with towers and antennae, creating costs, and upward pressure on price for remaining customers.

All this said, if the value of portability comes to outweigh these problems, then all indications are that competition will bring us portability. In fact, Verizon has recently announced its willingness to support "Any App, Any Device" on its network as long as the handset or application meets minimum technological standards. In going this direction, Verizon has made a business decision that it will be rewarded for juggling the idiosyncrasies of a wider array of phones by customers who will choose it over its rivals. Other carriers, such as AT&T, that use GSM technology have already been permitting customers to utilize handsets purchased from other GSM-based carriers. Whether these business decisions turn out to be good gambles is yet to be seen. But regardless, we can take comfort from seeing wireless carriers voluntarily adopting such consumer friendly-policies.

#### FINAL THOUGHTS: IF IT AIN'T BROKE...

Wireless isn't perfect. As a still emerging and evolving technology, we may wish for fewer dropped calls, greater coverage and more features. But competition is bringing us speedily better service, attractive pricing and even now interconnection of handsets. Let's not blow a good thing with new and unnecessary regulation.

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Letters commenting on this piece or others may be submitted at <http://www.bepress.com/cgi/submit.cgi?context=ev>.

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