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Press Release

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NEW PHOENIX CENTER ANALYSIS FINDS THAT REGULATORY OVERSIGHT OF USAGE-BASED PRICING IS UNLIKELY TO IMPROVE SOCIETAL WELL-BEING

New Perspective Shows that Prohibitions Against Usage-Based Pricing Forces Consumers to Pay for Services they Do Not Use

WASHINGTON, D.C. – In a new PERSPECTIVE released today, Phoenix Center Chief Economist Dr. George Ford reviews arguments that broadband providers may be anticompetitively imposing usage-based pricing to protect their profits from “core” services (e.g., voice, video, texting) against the proliferation of “over the top” services. Some claim that new price regulation of broadband services may be warranted by the Federal Communications Commission to address such pricing practices. Using a very simple economic example, Dr. Ford shows that charging a positive price to account for the substitution of over-the-top video services for the broadband provider’s own “core” services can make consumers and society better off. Consequently, regulations that prohibit such actions can make consumers and society worse off.

Indeed, Dr. Ford demonstrates that “it is not difficult to show that prohibiting this practice can harm consumers and reduce economic welfare.” As Dr. Ford explains, “A prohibition of usage based pricing may force some consumers to pay more for services they do not want or use, while others are allowed to pay less for services they do. The prohibition, in effect, results in a transfer of wealth from one group of consumers to another, and reduces profits. Overall consumer welfare may be diminished, even though some consumers are better off. Given numerous valid reasons for usage-based pricing, the positive case for regulatory intervention is weak.”

A complete copy of the study, PHOENIX CENTER POLICY PERSPECTIVE NO. 12-02: *A Most Egregious Act? The Impact on Consumers of Usage-Based Pricing*, may be downloaded free from the Phoenix Center’s web page at: <http://www.phoenix-center.org/perspectives/Perspective12-02Final.pdf>.

The Phoenix Center is a non-profit 501(c)(3) organization that studies broad public-policy issues related to governance, social and economic conditions, with a particular emphasis on the law and economics of telecommunications and high-tech industries.