

Economic White Paper on National Third Generation Wireless Standards

— Executive Summary —

*Joseph Farrell and Michael D. Topper**

We have been asked to study whether the U.S. government should mandate a national standard for third generation wireless telecommunications. Government should only mandate a standard when there is clear and convincing evidence that the market will fail to achieve economically efficient results and that this market failure will be worse than the likely inefficiencies of government-mandated standards. In the case of third generation wireless standards, on the contrary, there is much evidence that market competition among multiple third generation standards will better achieve the efficiency goals that a national standard might be thought to confer.¹ Standards policy should be set on that efficiency basis, reflecting public interests.

There are four main reasons supporting our conclusion. First, in many important respects, economic efficiency is harmed if government *mandates* a single standard rather than allowing multiple standards to compete in the marketplace. Allowing multiple third generation standards to compete can create greater product variety and reduce incremental buildout costs. Moreover, it can create stronger incentives for innovation, allow the market

* Joseph Farrell is Professor of Economics at the University of California, Berkeley, and was Chief Economist at the Federal Communications Commission (FCC) from January 1996 to June 1997. Michael Topper is Senior Manager at Cornerstone Research and Lecturer in the Department of Economics at Stanford University.

¹ Recent proposals that the government should force the convergence of W-CDMA and cdma2000 would preserve a limited amount of market competition, since the converged standard would compete against the third generation TDMA standard. However, the benefits of multiple standards described in this paper are best achieved by allowing all three standards to compete in the marketplace.

to resolve uncertainty regarding the relative performance of competing standards, and reduce the need for regulatory or consensus management of the industry.²

Second, we understand that proponents of a mandated standard point to economies of scale in production and seamless nationwide roaming as putative benefits of a single U.S. standard. However, examination of the U.S. wireless service market and of the wireless manufacturing market indicates that economies of scale and efficient nationwide roaming in third generation wireless are likely to come about even absent a single U.S. standard. Thus, there is no need for a single national standard, let alone for a government mandate with its attendant harms.

Third, we understand that some interested parties point to the alleged prospect of job creation as a reason to mandate a standard. But the primary consideration of a standards policy should be economic efficiency and the long-run interests of consumers — not the special interests of specific manufacturers and associated claims about jobs. The wireless manufacturing industry is only a fairly small part of the picture. U.S. consumers, U.S. service providers, and the federal budget all benefit when the market is allowed to choose the best mix of technologies.

Fourth, even taking the “jobs” argument on its own terms, manufacturing jobs and manufacturing leadership depend very much on a host of factors that affect manufacturing advantages, not simply on the country of origin of a standard. It would therefore be a leap of faith to assume that a U.S.-mandated third generation standard would lead to lasting benefits for U.S. manufacturers or manufacturing workers. The evidence is that wireless manufacturing jobs are internationally mobile.

² *Allowing* multiple standards need not stop the emergence of a single US standard through market forces or private standard setting bodies. In other words, *mandating* a single standard is not necessarily required in order to achieve any benefits associated with *having* a single US standard (although we believe that the latter benefits are quite limited in this case). A single standard that emerges from market forces or consensus voluntary standard-setting is likely to be less damaging to innovation and competition than a compulsory government mandate.