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History Shows Deregulation Will Benefit Electricity Consumers

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Most Americans are familiar with the phrase, "What's good for the goose is good for the gander." If the current debate over electricity deregulation in the United States is any indication, however, it appears this lesson may have been forgotten. A large and vocal army of electricity industry lobbyists and officials is making perplexing claims that deregulation will not work in the electricity market. These proponents of the uncompetitive status quo in the electricity sector charge either (1) that deregulation did not work to benefit consumers in other industries as much as others claim; or (2) that, even if deregulation did work in other industries, it will not benefit consumers of electricity.

These critics of deregulation are wrong on both counts. Fortunately, a seminal new study by two noted regulatory economists offers proof not only that deregulation has worked well in other industries, but that it will serve the interests of electricity consumers in the long run as well.

BENEFITS ARE CLEAR

In their recently released study, *Economic Deregulation and Customer Choice: Lessons for the Electric Industry*,[1] Robert Crandall, a Senior Fellow at the Brookings Institution in Washington, D.C., and Jerry Ellig, a Senior Research Fellow at the Center for Market Processes at George Mason University in Fairfax, Virginia, clearly document the historical benefits of deregulation. Analyzing five major "network" industries that have undergone deregulation and that share attributes with the electricity sector—natural gas, telecommunications, airlines, trucking, and railroads—Crandall and Ellig reveal that regulatory reform and customer choice have generated very beneficial results.[2] Specifically, after deregulation:

1 Robert Crandall and Jerry Ellig, *Economic Deregulation and Customer Choice: Lesson for the Electric Industry* (Fairfax, VA: Center for Market Processes, 1997).

2 *Ibid.*, pp. 3–5.

- **Prices fall:** "Within the first two years of deregulation, prices had fallen by 4–15 percent, and sometimes more for certain groups of customers. Within 10 years, prices were at least 25 percent lower, and sometimes close to 50 percent lower."
- **Service quality improves:** "Deregulation and customer choice align service quality with customer desires. Crucial social goals like airline safety, reliability of gas service, and reliability of the telecommunications network were maintained or improved by deregulation and customer choice."
- **The rising tide lifts all boats:** "Regulatory reform is not a zero sum game; it has generated genuine gains for consumers and society as a whole. It is possible to find narrowly defined groups of customers in special circumstances who paid somewhat higher prices after deregulation, but the gains to the vast majority of consumers far outweighed the effects on these small groups."
- **More freedom = more benefits:** "Rates fell faster in parts of the market where regulators permitted greater customer choice. Choice for *all* customers for all competitive services will provide the most benefits."

Table 1

Summary of Crandall–Ellig Findings on Deregulation

Industry	Year Deregulation Began	% Real Price Reduction 2 years	5 years	10 years	Annual Value of Consumer Benefits
Natural Gas	1980	4%	20%	44%	$9.1 billion
Long-distance Telecom	1984	10-38%	23-45%	27-57%	n.a.
Airlines	1984	5-16%	23-41%	40-47%	$5 billion
Trucking	1977	13%	12%	29%	$19.4 billion
Railroad	1980	n.a.	3-17%	28-56%	$19.6 billion

Note: All figures in real 1995 dollars; n.a. = not available.

Although these findings should come as no shock to students of deregulation in these individual sectors of the economy, the Crandall–Ellig study is the first to aggregate the beneficial results of deregulation in such a comprehensive manner. Furthermore, it is the first study to prove conclusively that the benefits of deregulation are not limited in scope to one industry.

More important, the Crandall–Ellig study wisely rejects the notion that these findings cannot be applied to the electricity sector, which is sometimes referred to as America's last regulated monopoly. As Crandall and Ellig summarize, "Given the history of natural gas, telecommunications, airline, railroad, and trucking regulation, is it reasonable to expect that customer choice in electricity could generate consumer benefits? The experience of all these industries suggests that the answer is a resounding 'Yes.'"[3]

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3 *Ibid.*, p. 7.

SHOOTING THE GOOSE WON'T SAVE THE GANDER

Of course, the opponents of customer choice and competition in electricity have a good reason to claim that deregulation will not work. Open markets, competitive entry, and true consumer choice, after all, are the antithesis of regulated monopoly. If consumers are given the choice to switch providers, monopolistic utilities rightly fear they may lose much of their current captive customer base.

But this is not a bad thing. The threat of competition and of customers switching to new providers will force all firms to lower prices and improve service quality, as the Crandall–Ellig study aptly proves. If there is one lesson that should be clear from the Crandall–Ellig study, it is that the only regulation that truly can discipline uncompetitive behavior is the threat of competitive entry by rivals and unrestricted customer choice. Bureaucratic meddling and regulatory micromanagement are poor surrogates for these voluntary, spontaneous, free-market forces.

Viewed in this light, it is not surprising that monopolistic utilities vehemently and vociferously oppose the notion that deregulation has worked in the past and will work well in the future for electricity consumers; hence their outlandish claims concerning the worth of competition and customer choice. The Crandall–Ellig study proves conclusively that these claims run contrary to overwhelming academic consensus and cannot be judged as valid by policymakers debating the future of this industry.

Utilities should realize that trying to shoot down the goose to save the gander is a bad strategy and ultimately will fail. Instead of foundering in a state of denial about the benefits of customer choice and competition, and spending billions to lobby against the best interests of consumers in legislatures across the United States, the utilities should embrace a competitive future and look for new ways to serve their customers better.