



Consumer Engagement in Regulation: Panacea or Paralysis?

Dr. Mark Jamison



Consumer Engagement in Context

- **Purpose of regulation and agency**
 - Public interest: Control market power
 - Must serve; Limit rent extraction
 - Rent seeking
 - Powerful groups (including the regulated) seek benefits through regulation
 - Taxation by regulation
 - Politics seeks resources
 - Limit information asymmetry and political opportunism



Consumer Engagement in Context

- **Regulatory process in U.S.**
 - Appears quasi judicial
 - Statements of law, findings of fact, decision
 - Substantively quasi legislative
 - Initiates own proceedings; develops own record
 - Investigative powers
 - Led by executive branch “appointees”



Purposes of Consumer Engagement

- **Integrity and legitimacy of system**
 - Information for regulator
 - Combat corruption and favoritism
 - Educates public
 - Gives consumer voice (due process)
 - Facilitates buy-in
- **Consumer protection (but could be done by others)**



Consumer Engagement in U.S.

- **Transparency**
 - In some states, anyone can watch everything the regulator does
 - Sunshine laws; broadcasts of meetings; notice of activities; open records
 - Federal is less transparent
 - Open records
 - Decisions in private; ex parte



Consumer Engagement in U.S.

- **Public communications**
 - Workshops, etc. specifically with public
- **Consumer complaints**
 - Consumer protection
 - First option: Utility resolves
 - Protects and educates consumers



What's The Problem?

- **Sometimes inhibits adaptive work**
 - Public discussion inhibits open dialogue
- **Who speaks for consumer?**
- **Are we protecting consumers from reality?**



Dual entitlement

- **Consumers believe**
 - Entitled to reference transaction, e.g., what others paid
 - Firms entitled to reference profit
- **Examples**
 - Consumers: Locked phones in Hong Kong
 - Politicians: OECD broadband benchmarking; Windfall profits tax



Consumer choice theory

- **Two separate utilities**
 - Acquisition utility (V_A)
 - Value of owning the product
 - Transaction utility (V_T)
 - Fairness of the exchange
- **Net consumer surplus = $V_A + V_T - P$**



Transaction utility

- **Increased by**
 - Paying same as others
 - “Cost-based” pricing
 - Getting a “deal”
- **Decreased by**
 - Others getting a better deal
 - “Unjustified” price differentials
 - “Unfair” treatment of workers



Norms

- **Customers form expectations**
- **Expectations change if an unusual practice becomes common**
 - Data caps become more accepted over time
 - Real-time pricing



Meaning for regulators

- **Examples where customers complain when norms are broken**
 - Unlocked phones
 - Regulation of landline telecoms
 - Methods of paying bills
 - Feed-in tariffs
 - Extended area service



Meaning for regulators

- **Should regulators require operators to follow norms?**
 - For example, by disallowing versioning that is seen as unfair
- **Should regulators encourage operators to break norms?**
 - For example, by not siding with customers



Conclusions

- **Danger that consumer engagement is overrated**
 - Paralyzes process and progress?
- **Danger that consumer engagement is taken too lightly**
 - Engage in serious discussion?



- **Consumer engagement in the past has been largely about transparency, information and consumer protection**
 - Served a static world
- **Next practice: Stirring and steering**
 - Serves a dynamic world with no easy answers