



Consumers aren't always king

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The concept of the consumer-driven economy is everywhere. We are told a consumer-driven recovery is going to turn our economy around. Consumer-driven health care was supposed to drive down medical costs. Yet the real power of consumers is generally ignored by those proposing government solutions to problems. This is evident in the current sunset review of the Texas Department of Insurance (TDI) and Public Utility Commission (PUC) taking place in Austin. The sunset review process is supposed to find ways to make government more efficient. Instead, it has turned into yet another way to reduce consumer welfare in the marketplace.

Take the homeowners insurance market. If consumers don't like the prices and products offered by one company in this competitive market they can easily switch to another.

But many "consumer advocates" want to use the sunset process to implement a system of prior approval for homeowners insurance. Put another way, consumers wouldn't be able to buy homeowners insurance until TDI gives its permission.

The Texas electricity market is even more competitive than the insurance market.

The problem, however, is that the price of electricity is loaded up with government fees, taxes, and mandates that make electricity more expensive.

Franchise fees are one example. The average household pays around \$154 a year in franchise fees on electricity, cable, telephone, and gas bills — for an annual cost to Texas consumers of more than \$400 million. Electricity prices also contain subsidies for wind energy producers and energy efficiency programs — the annual price tag for these will likely top \$1 billion in the near future.

Recommendations made in the Texas Sunset Advisory Commission's Staff Report would further increase electricity prices.

One recommendation calls for the PUC to have the ability to order a generator to reimburse electricity buyers if it has used "market power" to manipulate electricity prices. This concept of restitution may sound consumer friendly, but it is not.

There have been no alleged instances of market power abuse in years in this heavily monitored market. So what this recommendation will result in is that large users of electricity (industrial, commercial, and municipal users) will use restitution to try to get cheaper electricity through the PUC than they can in the marketplace.

Generators facing this regulatory risk will build it into their pricing. So consumers will be subjected to higher prices as large companies or municipalities haggle over electricity prices at the PUC.

The Staff Report also recommended a new licensing scheme for electric — and telecommunications — companies that do business at the PUC, along with a new fee. Yet these companies and their customers already pay fees of more than \$60 million a year that more than cover the \$14 million annual cost of running the PUC. Surprisingly, the Staff Report concludes that these new fees would result in "no revenue gain to the State ..." I suspect consumers who will suffer a "revenue loss" from these fees would beg to differ.

The recommendations for both the insurance and electricity markets are based on the assumption that consumers can't take care of themselves, so the government must do it for them.

This simply isn't the case. Consumers regularly make complicated and expensive decisions without the government's help — cell phones, computers and other electronic devices are just a few examples.

When the Sunset Advisory Commission members vote on these recommendations, they should remember that consumers are sovereign in a free market. If they don't like the choices one company is offering, they can simply make their purchases elsewhere.

Peacock is the director for the Center for Economic Freedom with the Texas Public Policy Foundation in Austin.

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