



The Daily Dish

T-Mobile and Sprint Off the Back Burner

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Eakinomics: T-Mobile and Sprint Off the Back Burner

T-Mobile and Sprint announced their intention to merge in late April of 2018. The proposed merger largely flew under the radar last year, but the new Congress is proposing to [take a look](#) at the deal even as the Federal Communication Commission (FCC) and the Department of Justice (DOJ) continue their review. There have been lots of issues raised about the merger. First, the combination of two of the four largest telecommunications firms would create a very large firm. True, but it is not size *per se* that should be a disqualifying characteristic in a merger review. The right way to understand any merger is how it impacts consumer welfare.

Second, the combined firm might speed the transition to 5G networks. Again, true, but this is relevant only in identifying the consumer benefits of the merger. Too often this is pitched as the main policy goal, which has the feel of a centrally planned economy dictating a merger to meet its five-year plan. No thanks.

Finally, there is the genuine issue of how the merger might affect [the market for prepaid cellular services](#). Together, T-Mobile and Sprint have about [30 million prepaid](#) customers. How one thinks about this issue depends critically on whether you view prepaid cellular as a separate and distinct market, or as part of the overall prepaid and postpaid customer base. AAF's Will Rinehart took a [close look at the evidence](#) a while back. Of note, his research suggests that the prepaid and postpaid deals are two segments of the same wireless market — not separate markets.

In prepaid mobile service, the user purchases credits ahead of time and has an allotment of minutes, texts, and data she can use. When these run out, the service is throttled until the user purchases more. In contrast, a postpaid mobile service bills a user after he uses the service. If he exceeds his limit for minutes, text messages, or days that can be used in that month there is typically a penalty charged. As it turns out, the key dividing line between the users of the two services is credit worthiness. As credit scores and other indicators of credit worthiness rise, postpaid providers are willing to take on the users with higher risk of being unable to pay. In effect, the two markets are competing for the same people, sometimes along lines that have nothing to do with the characteristics of the wireless services. That suggests that the merger will have no detrimental impact on competition. Indeed, Rinehart concludes that the deal could spur *more* competition within the prepaid segment of the wireless market as existing firms (e.g., Verizon) are forced to compete more strongly for the entire range of the customer base.

Approval of the merger is long overdue. In general, regulators should defer to the scale and scope of firms that the private sector wants to create and be vigilant in monitoring the quality of actual competition. If anti-competitive behavior emerges, damages and remedies should be imposed. But in addition to this general principle, there is little to suggest reduced competition from the merger.