One reason the American high-tech industry has been able to create so many innovative products is that it was able to maintain a close, direct relationship with the individuals and companies that used its products. High-tech companies could quickly determine whether their software, hardware and online services were meeting user needs, and they could revise and improve these products rapidly and continuously.

This direct feedback loop between the high-tech industry and its user base became even better and faster in the past decade because of the Internet. The Net created both an electronic-commerce system where products could be directly purchased, and electronic forums where user comments and complaints could be better heard.

Microsoft Chairman Bill Gates has called this Internet-aided feedback loop “frictionless” because it minimizes the distorting and masking effects of the middleman. It is one of the purest examples in history of the benefits of free-market capitalism.

But in recent years, as the high-tech industry has begun to offer wireless-phone products, this connection between technology producers and users has been blocked by huge, powerful middlemen. In the U.S., the wireless phone carriers have used their ownership of networks to sharply restrict what technologies can actually reach users.

I call these cellphone companies the new Soviet ministries, because they are reminiscent of the Communist bureaucracies in Russia that stood athwart the free market for decades. Like the real Soviet ministries, these technology middlemen too often believe they can decide better than the market what goods consumers need.

Of course, the cellphone carriers aren’t Communists, and they aren’t evil. They spent billions of dollars to acquire and build their networks. They have every right to want to manage these networks carefully and to earn a fair return on their investments on behalf of their shareholders.

Also, these companies often subsidize the cost of the phones consumers buy, so they feel they have a right to decide what products reach consumers.

However, I believe that, in the name of valid business goals, the U.S. carriers are exercising far too much control over the flow of new technologies into users’ hands. In an ideal world, any tech company with a new cellphone, or with software to run on cellphones, should be able to sell it directly to users. These customers would then separately buy plans from the cellphone companies allowing those devices to work on the networks.

But that isn’t how it works. In most cases, manufacturers must get the network operators’ approval to sell hardware that runs on their networks, and carriers don’t allow downloading of software onto phones unless...
they supply it themselves. I once saw a sign at the offices of a big cellphone carrier that said, “It isn’t a phone until ‘Harry’ says it’s a phone.” But why should it be up to Harry (a real carrier employee whose name I have changed)? Why shouldn’t the market decide whether a device is a good phone?

Verizon Wireless didn’t agree to offer its customers the innovative Treo smart phone until thousands of its customers signed an online petition demanding it do so. I’m not saying there was a cause and effect, but clearly some Verizon customers wanted a Treo that worked on the Verizon network and couldn’t buy one even though the Treo’s maker was eager to supply a Verizon model.

When AT&T Wireless brought out the first U.S. cellphone using Microsoft’s smart phone software, it hobbled the phone’s user interface so that an icon for its online store would always be visible. And several carriers have crippled phones’ Bluetooth wireless functionality so they can’t be used as laptop modems or to synchronize with a PC.

More recently, unidentified cellphone carriers are reported to have balked at allowing customers to buy a new phone, jointly designed by Motorola and Apple Computer, that would let users synchronize and play back music from Apple’s iTunes computer program. One possible reason: They want to sell music themselves.

At last month’s D: All Things Digital technology conference, which I co-produce for The Wall Street Journal, Apple CEO Steve Jobs said he was wary of producing an Apple cellphone because, instead of selling it directly to the public, he would have to offer it through what he called the “four orifices” — the four big U.S. cellphone carriers.

Cellphone carriers say one reason they keep tight control over what phones run on their networks is to protect the networks from harm and assure service quality for their subscribers.

But we’ve heard that before, and it wasn’t true then. Until the 1970s, when the government forced open the market, the old AT&T phone monopoly refused to let consumers buy phones and plug them into their home phone lines. You could only rent phones, and they had to be models made by an AT&T subsidiary. AT&T said the restriction protected the quality of the wired phone network. But, lo and behold, when the ban was lifted the phone network was just fine, even though consumers were plugging in millions of less expensive, more innovative phones.

Just as consumers benefited from that change, I believe they would benefit if the new Soviet ministries loosened their grip.

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