

Why Johnny Can't Do Warp Ten

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Imagine traveling at warp ten, the infinite speed that exists only in science fiction. At warp ten, you are ubiquitous; you are everywhere at the same time. This is like being everywhere at once on the Internet, something you can almost do today. But this is only horizontal movement -- movement across geography. What if you could also travel at warp ten in other dimensions, such as knowledge management, information processing, information retrieval and presentation, games and chatting, and other forms of entertainment? You are on your way towards doing this, too, as entrepreneurs find faster ways to rearrange bits into an almost infinite number of arrangements. Now imagine what it would be like if you could put all of the dimensions together -- warp ten in all dimensions all at the same time. Sounds exciting, but you would need to rewrite the US Telecommunications Act of 1996 to let this happen.

The progress in telecommunications since the passage of the US Telecommunications Act of 1996 (Act) has been tremendous. Intense competition has caused the number of subscribers to increase 250 percent, the average monthly bill to decrease almost 15 percent, investment to increase more than 200 percent, and the number of new services to grow daily.¹ Unfortunately, these statistics apply only to mobile telecommunications, an area left largely unregulated by the Act, and not to traditional telecommunications. For traditional telecommunications, the number of telephone lines has increased only 16 percent, average monthly expenditures for service have actually increased, and total investment has increased only about 5 percent since the Act was passed.² A review of the statistics for the Internet, another area left largely unregulated by the Act, would show even more remarkable differences between regulated and unregulated telecommunications.

Of course, it is unfair to compare mobile and Internet communications with traditional telecommunications because traditional telecommunications is so much larger, or is it? There are 192 million telephone lines and 97 million mobile subscribers in the US, a gap that continues to narrow ever more rapidly.³ According to the International Telecommunications Union, the number of

mobile subscribers will surpass the number of telephone subscribers worldwide by the end of 2003.⁴ Voice traffic is forecast to be less than 1 percent of the total telecommunications and Internet traffic by 2007.⁵ If the differences in progress between regulated and unregulated telecommunications are not due simply to differences in size, what is the cause?

The painful fact is that, in an attempt to create competition in telecommunications, the Act increased the amount of regulation for traditional telecommunications, causing it to remain the slowest growing and least innovative area of communications in the US. To be fair, this is not the fault of Congress or the industry regulators. The local exchange companies and the long distance companies were so anxious to gain regulatory advantage that they lobbied hard to ensure that there were numerous restrictions on competition. As a result, telecommunications companies and regulators have spent countless months debating network unbundling, cost-based prices, collocation, resale discounts, and subsidies for schools, libraries, healthcare facilities and high-cost census-block areas instead of developing and enabling the global networks and customer-driven services that the wireless and Internet companies are pursuing.

What is to be done? First, we should eliminate the artificial distinction between local and long distance. This boundary was created over 100 years ago and outlived its usefulness long ago. Unfortunately, the intense lobbying effort involved in writing the Act caused Congress to codify this fictional boundary by creating rights and responsibilities that vary depending on whether a company is classified as an incumbent local exchange company, a competitive local exchange company, a long distance company, or some combination of the three. Removing this distinction will be difficult because the change could create winners and losers in the industry. What is needed is a package deal, which may include allowing local and long distance companies to merge so that they do not have to worry about which gets into the other's business first.

One benefit of removing the local-long distance distinction is that this removes the need for separate interconnection and unbundling arrangements for local and long distance. Companies would be free to negotiate arrangements that make sense for the markets involved, including simple uniform schemes. Furthermore, because local and long distance would be integrated, incumbent local exchange companies would lose their incumbent advantage in interconnection. Even though a former incumbent local exchange company would have a large local footprint in its traditional market, it would have little or no footprint elsewhere on the globe. As a result, there could be a balance of negotiating power for interconnection for global networking, making it difficult for an incumbent to disadvantage competitors.

The second thing we should do is eliminate the artificial distinction between traditional

telecommunications, mobile telecommunications, and the Internet. Customers should be free to purchase any communications package that makes sense to them and that companies can assemble using whatever technologies do it best. Removing these distinctions also removes the need for separate interconnection and payment arrangements for traditional telecommunications, mobile, and Internet. This opens doors for innovation, integration, and growth.

The third action we should take is to loosen our grip by deregulating most retail services, decreasing the restrictions on mergers and divestitures, and clarifying which regulator does what. Deregulation and clarification of regulatory roles are critical for investment because they decrease risk and make market entry easier. Mergers and divestitures are necessary for the traditional telecommunications companies to shake themselves out of their nearly 100-year-old industry structure. Think how different telecommunications would be if former FCC Chairman Reed Hundt had not stopped a potential SBC-AT&T merger by calling it unthinkable. Local and long distance mergers would have eliminated the need for the Bell Operating Company 14-point checklist and the resulting local-to-global-to-local networking companies would have been competing vigorously in developing new products and expanding local footprints in the US and internationally.

The ultimate lesson learned from the Act is that, no matter how hard we try, we cannot regulate our way to competition, innovation, and low prices. This is where the Act failed and where changes are needed if we are to move and innovate at warp ten.

Endnotes

¹ Source: World of Wireless Communications <http://www.wow-com.com/wirelessurvey/>.

² FCC, Trends in Telephone Service, 2nd Report for 2000, released December 2000; FCC, 1999 Statistics of Common Carriers, August 2000.

³ FCC, Trends in Telephone Service, 2nd Report for 2000, released December 2000; and World of Wireless Communications <http://www.wow-com.com/wirelessurvey/>.

⁴ International Telecommunication Union, *ITU World Telecommunication Indicators Database and ITU forecasts*, September 2000.

⁵ Ray L. Hodges and Lawrence K. Vanston, Technology Forecasts for Local Exchange Switching Equipment, *Technology Futures*, March 2000.