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JANUARY 13, 2003

WASHINGTON OUTLOOK

The FCC: It's Show Time for Michael Powell

For two years, Federal Communications Commission Chairman Michael K. Powell has talked about pushing big changes that could reshape the telecom industry. Now it's finally show time. Powell is rolling out an ambitious agenda, and votes on major proposals may begin as early as February. With a 3-2 Republican majority, that should be good news for the Baby Bells, which have been crusading for less regulation.

Well, maybe not. The reason: maverick Republican Commissioner Kevin J. Martin. The former Bush campaign lawyer holds the swing vote now that the five-member commission has two Democrats, with the Dec. 3 addition of Jonathan S. Adelstein. Although Martin, 36, agrees with Powell's sweeping plans for more cross-ownership of media properties, they may part company on a key initiative to deregulate the Baby Bells. "In a bizarre way, Martin could become the de facto chairman," says Lawrence J. Spiwak, president of the Phoenix Center, a telecom think tank.

That may be an exaggeration. But Martin, who was a crucial member of George W. Bush's legal team during the 2000 Florida recount and whose wife, Catherine, is now a top aide to Vice-President Dick Cheney, clearly is going to be a central player in the success or failure of the Powell agenda. With Martin's vote up for grabs, the chairman may have to horse-trade to get what he wants. That makes Adelstein, a former telecom aide to soon-to-be Senate Minority Leader Tom Daschle (D-S.D.), more influential on issues such as extending broadband to rural areas.

The first big fight, however, will be over whether to deregulate local phone companies. The 1996 telecom act was meant to jump-start competition by forcing the local Bell monopolies to lease pieces of their local-calling networks to rivals at low rates. But Powell agrees with the Baby Bells that such freeloading has discouraged them from investing in their networks. "It's driving investment out of the industry," says Verizon Communications lobbyist Tom Tauke. Powell wants to roll back the rules sooner rather than later.

Martin, though normally a deregulation advocate, prefers to let the states make the call, based on local competitive conditions. He may end up forging a majority with Democrats Adelstein and Michael J. Copps. The upshot: Powell may have to compromise, and in the end, rivals to the Bells may get a more favorable hearing from state regulators. Powell declined to comment, though an aide points out that he has long supported the authority of state regulators. Says Martin: "The states have a very important role to play in making sure there is a vibrant, competitive market."

Companies on both sides of the debate claim that economic studies bolster their positions. Equipment maker Corning Inc. ([GLW](#)), for one, estimates that, without the rules, the Bells will spend \$46 billion building fiber networks over the next 10 years, and only \$5 billion if the rules remain in effect. AT&T argues that the rules ensure that more competitors survive, translating into higher overall investment.

Powell's deregulatory plans don't end with local phone networks. He also wants to unshackle the broadband business. Here, Adelstein may hold sway. He has made a top priority of closing the digital divide in rural America, and his Republican colleagues will have to convince him that deregulating broadband will foster investment there. GOP members will woo him in an effort to get a 4 to 1 majority in favor of deregulation. That's because federal courts have thrown back FCC rules passed along partisan lines, and a four-vote win decreases the likelihood of a court rejection. Also, a strong win on broadband will bolster an agenda that has lost momentum while waiting in the wings.

By Catherine Yang

Capital Wrapup

Stem-Cell Setback?

The backlash against the claimed birth of the world's first cloned baby has hurt the biotech industry's multimillion-dollar lobbying effort to allow continued research that could yield treatments for a wide range of illnesses, from Parkinson's disease to diabetes. Hours after the Raëlians, a secretive sect led by a Frenchman who calls himself Raël and believes in space aliens, announced on Dec. 27 that it had cloned a baby girl dubbed "Eve," the White House endorsed a House-passed bill that would ban all human cloning. That measure died in the Senate, largely because of efforts by the biotech lobby to persuade lawmakers to allow reproduction of embryonic stem cells.

President Bush has tried to walk a fine line in the supercharged political and ethical debate. While he opposes human cloning, he angered absolutists on both sides of the issue in 2001 by curbing but not banning government spending on stem-cell research. After Eve, however, the White House's line is hardening. And Bush has the full support of incoming Senate Majority Leader Bill Frist (R-Tenn.), a surgeon and backer of limited research.

Biotech lobbyists and patients' groups believe they have the votes to block the all-out ban that's backed by a broad coalition of anti-abortion conservatives and liberals worried about a cloned "master race." But if Eve starts making appearances on prime-time TV, the politics of stem-cell research could change dramatically.

By Lorraine Woellert

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