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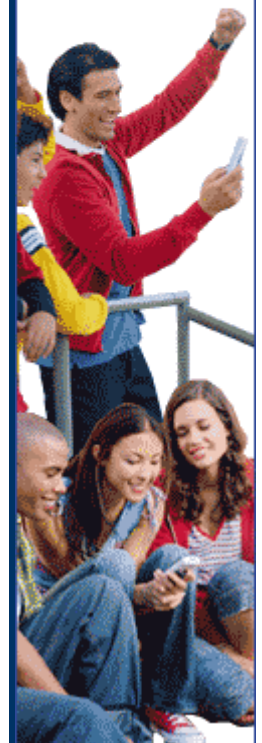
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Policy 'Think Tank' Blasts Bells' Pricing On Special Access

Jul 17, 2003

As it moves to deregulate telecom markets, the **Federal Communications Commission** must ensure that either sufficient regulatory safeguards or vigorous established competition are in place to constrain incumbents' market power, according to a policy white paper released Wednesday by the **Phoenix Center**, a Washington, D.C.-based telecom policy "think tank." Wednesday's release of the paper was exclusively predicted earlier this week by *Communications Today's* sister publication *Telecom Policy Report*. "The FCC cannot assume-away ILEC market power and, as Chairman [Michael] Powell has recently attempted to do, eliminate it from the public lexicon altogether; instead responsible public policy requires the commission to return the core unresolved issue of incumbent market power to center-stage," the white paper says. As a case study of how premature de-regulation can adversely affect U.S. consumer welfare, authors Lawrence Spiwak and George S. Ford examine the FCC's 1999 attempt to de-regulate special access services. In that instance, the agency admitted that it made significant analytical leaps to conclude that sufficient structural safeguards were in place to ensure that residual Bell market power (i.e., the ability to raise prices and restrict output) would be constrained.

Inputting publicly-available data into a new economic model constructed specifically for this white paper, the authors attempt to gauge the success or failure of the FCC's approach. After review, however, the authors find that the incumbent local monopolies price special access service at about three times its incremental cost. The study notes that its conclusion is in line with recent work by Paul N. Rappoport and Lester D. Taylor, who found, using a completely different economic model, that the **Bells** are earning a 40 percent return on special access services. For more about this new report from the Phoenix Center, be sure to read the next edition of *Telecom Policy Report*, the industry's source for in-depth, behind-the-scenes investigative journalism. To learn more about *TPR* or to sign up for a free four-week trial subscription, visit the "newsstand" at <http://www.TelecomWeb.com>.



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