

YOU ARE HERE: [Articles](#) > [Telecom Policy Report](#) > [Jan 28, 2004](#) > Article[Print article](#) [Tell a friend](#) [Find subscription deals](#)**Competition Watch: Study Upholds Necessity Of 1996 Telecom Act.****Telecom Policy Report**, Jan 28, 2004

Although provisions of the 1996 Telecommunications Act continue to spur a great deal of heated debate, the law's pro-competition elements are clearly functioning as intended. A compelling new study from the Washington, D.C.-based Phoenix Center, released Tuesday (Jan. 27), makes the case that without the Act, the wide array of telecom services now enjoyed by American consumers, as well as competitive pricing models now in use by the nation's largest telcos, simply would not exist.

In fact, the expansion of telephone competition - particularly the "all-you-can-eat" bundles of long distance and local phone service - is benefiting American consumers to the tune of \$10 billion a year in lower phone bills and increased phone usage, according to the Phoenix Center study. It says that, on average, consumers who buy the bundled packages are saving \$429 a year.

"These savings validate Congress's wisdom in opening the U.S. phone market to full competition," Phoenix Center President Lawrence Spiwak told TPR. "This study simply empirically validates the obvious fact that competition produces lower prices, better service, more employment and increased investment."

The study, titled "The \$10 Billion Benefit of Unbundling: Consumer Surplus Gains From Competitive Pricing Innovations," attributes the consumer gains to two major factors: (1) the incredibly competitive market produced by the break-up of the old Ma Bell monopoly; and (2) the market-opening provisions of the Telecom Act, where the Bell Companies could re-enter the long distance market if they first provide rivals with unbundled access to their networks at just and reasonable prices.

"This combination of pro-competitive policies provided fertile ground for potential benefits for U.S. consumer welfare," the study said. "The fundamental trade-off is succeeding and should be maintained."

The flat price plans, purchased by millions of Americans over the past two years, typically provide unlimited local and long distance calling for a fixed price of about \$60 a month.

"Since millions of residential consumers spend well over \$60 per month on these services when purchased on an a la carte basis, this competition-driven pricing innovation represents a tremendous boon for consumers and economic growth," the study said.

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The study notes that the flat price bundles were first offered by new entrants in the local market in 2002. By becoming a local provider, an entrant no longer needed to pay per-minute switched access charges to incumbent local telephone companies, giving them the ability to offer the better-priced plans. "In areas where the incumbent local carrier was able to sell local/long-distance bundles before competition emerged, the local telephone incumbents continued to charge customers per-minute fees for years," the study adds.

"The competitive policies put in place by the 1996 Telecom Act are working," Spiwak said. "However, these gains are fragile and could easily be reversed by policy mistakes, such as limiting the types of elements available to rivals or increasing the cost of an element, either of which would make entry economically untenable."

The one-price plans discussed in the study were first introduced to the market in 2002 by competitive local exchange carriers (CLECs) using platforms of unbundled network elements (UNE-P) provided at wholesale rates by incumbent local exchange carriers (ILECs). As the study points out, local entry by new companies was crucial for these "all-you-can-eat" plans to emerge. By becoming a local provider, an entrant no longer needs to pay per-minute switched access charges to ILECs. Indeed, such charges amounted to 5 cents a minute as recently as 2001, a price that made unlimited plans unthinkable for new entrants. Without local competition, the only potential providers of a bundle were the ILECs.

Today, offerings of bundled local and long distance services typically consist of a flat charge of about \$50 to \$70 and allow consumers to make unlimited local and domestic long distance charges at no additional charges per call or per minute. In essence, this key pricing innovation ensures that no residential consumer has to spend on average more than about \$60 per month for as much domestic local and long distance service as can be consumed, and these packages often include value-added features such as Voice Mail, Caller-ID, and other desirable services.

Toward Economic Growth

"It was competitors and competition that first brought these innovations to market - not regulated monopolies," Spiwak says.

As would be expected, market shares between incumbents and new entrants are far from symmetrical. Currently, 32.4 million consumers purchase local and long distance service packages from the Bell companies, compared to 14.2 million lines served by competitors (not all of these are the unlimited usage bundles). Yet, considering that this policy framework created multibillion-dollar savings to consumers, the analysis set forth in the Phoenix Center study concludes without much hesitation that the fundamental trade-off of Section 271 of the 1996 Telecom Act is succeeding and should be maintained.

Significant consumer welfare gains from "all-distance" plans accrue to the American economy as a whole, the study says. Much as the

original AT&T Divestiture and long-distance competition transformed an industry in which consumers kept egg-timers by their telephone so as keep their long-distance bills low, the innovation of "all-distance" plans opens up entirely new possibilities for American consumers. Parents can now work at home and in rural areas and can make as many calls as they want for a low, fixed monthly fee. Telecommuters are saving hundreds, perhaps thousands of dollars every year.

These consumer benefits are the direct result of the fundamental bargain of Section 271 of the 1996 Act. Because of regulatory initiatives at the federal and state level, the benefits of that bargain have only just begun to accrue to American consumers. "If regulators stay the course and maintain the fundamental bargain of Section 271 so as to create a workably competitive market for wholesale "last-mile" access, then a similar change long-term market structure might take place that could result in significant long-term benefit to the American economy," the study concludes.

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