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Monday, Jun 28, 2004

Opinion

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Posted on Mon, Jun. 28, 2004

Court ruling will mean higher phone costs

OUR OPINION: FCC SHOULD ADOPT RULES TO PROMOTE COMPETITION

The announcement by AT&T last week that it will stop competing for new customers in seven states is evidence that a federal court's recent dismantling of telecommunications regulations may mean higher prices and fewer choices for consumers. It's a pity that the Bush administration chose not to appeal the court's decision.

By increasing competition between telephone companies, the 1996 Telecommunications Act helped to lower phone rates. But the appellate court decision weakens the Federal Communication Commission's ability to enforce that law.

Regulation rollback

Before 1996, the Baby Bell local-phone companies were legal monopolies and, accordingly, set rates above their costs. To boost competition, Congress demanded that the Bells share the physical infrastructure. They would have to lease their local phone lines and switches to new competitors, at cost. This encouraged long-distance giants like AT&T as well as no-name start-ups to enter the market, and local rates have fallen in the last eight years.

The Bells, however, challenged the FCC's implementation of the 1996 act. In March, the District of Columbia Court of Appeals, ruling in the Bells' favor, told the FCC to rewrite the rules. Rather than fight for more competition, the administration settled and recently announced that it wouldn't appeal the court decision. How telephone rates ultimately will be affected remains unknown because the FCC hasn't written new rules yet. We do know this: The Bells have said they want to double the rates they charge competitors. With increased competition, telephone rates dropped between 15 percent and 35 percent from 1996 to 2002. AT&T's recent announcement suggests that the new rules have already weakened competition.

One nonprofit think tank estimated annual consumer savings from the recent rules at \$10 billion, over \$400 a year for households that switched providers. The Bells have promised the administration not to raise prices before the end of the year, which really means before the presidential election. But come 2005, that will change.

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The technical and economic arguments at play here aren't simple. Critics correctly argue that by granting competitors low-cost access to local infrastructure, the regulations discouraged development of networks built on cable, fiber and wireless technology. Ideally, the FCC would have developed a regulatory system that facilitated vigorous competition and then phased out some of the subsidies, timed to keep rates low and encourage technological development.

The appellate decision, unfortunately, demands that the FCC quickly revolutionize an industry in need of slow and deliberate revision. We hope that the political climate hasn't become too polluted for the FCC to craft intelligent new rules.

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