

# Telecom Policy Report



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## ECONOMICS & POLICY

### **Analysis: Telecom Act Continues To Spur Job Growth**

*Phoenix Center's Latest Findings Fly In Face Of Bell Assertions*

Government data on employment in the telecommunications industry reveals a substantial increase in sector employment following passage of the 1996 Telecom Act, according to recent findings published by the Washington, D.C.-based **Phoenix Center for Advanced Legal & Economic Public Policy Studies**. This increase in employment reversed the declining jobs trend that existed prior to the Act.

In fact, econometric analysis by the Center's experts, led by economist and attorney Lawrence Spiwak, indicates that competitors were the primary source of job growth in wireline communications.

The Center's findings are being made public at a time when the Bush Administration's economic policies have come under harsh and relentless attack from Democratic Party presidential hopefuls. In fact, the findings tend to fly directly in the face of assertions made by the **Bell Operating Companies** (BOCs) and others who continue to suggest that the guidelines for telecom competition spelled out in the 1996 Telecom Act need to be revamped – especially the language related to the wholesale provision of the BOCs' unbundled network elements (UNEs) to competitors.

In a recent Phoenix Center-sponsored roundtable discussion on telecom policy, Spiwak, a former senior attorney at the FCC, made clear his frustrations with the current course of policymaking at the federal agency.

"You go listen to people's speeches, you go read the [Triennial Review] Order and you'll hear about regulatory symmetry, you'll hear about investment, you'll hear about stock prices, you'll hear about the equipment sector," he said. "But nobody talks about the key problems" of whether "people under the FCC's jurisdiction can raise prices or restrict output."

In the Center's latest bulletin, Spiwak and his fellow analysts note that while employment has declined in the wake of a recession, the collapse of the Internet bubble, and the near complete demise of the competitive

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telecom segment, the residual competition resulting from passage of the 1996 Act – based primarily on unbundled elements – has allowed current employment levels in the wireline telecom sector to remain 17 percent above historical trends, presently adding about 92,000 jobs to the wireline telecommunications segment of the industry.

But the Center also warns that because the FCC's recent Triennial Review Order "raises substantial entry barriers in the form of fixed regulatory expenses and increased risk, one also can expect that employment in the telecommunications industry will decline as entry slows and the potential for exit rises."

The goals of the Telecom Act were to "promote competition and reduce regulation" in communications industries, the Center said. "Congress believed that these dual goals would 'secure lower prices and higher quality services for American telecommunications consumers and encourage the rapid deployment of new telecommunications technologies.'"

Previous Phoenix Center research showed that the 1996 Act led to sizeable increases in investment in the telecommunications sector. It also showed that competition stimulates both competitive local exchange carrier (CLEC) and incumbent local exchange carrier (ILEC) investments.

A number of other studies have confirmed a positive relationship between investment, unbundling, and competition in the telecommunications industry after passage of the 1996 Act. "Since telecommunications carriers

combine both capital and labor to produce output, a natural extension to earlier research on investment is how labor has been affected by the 1996 Act," the Center said in its latest bulletin. Using publicly-available government data, the latest bulletin shows that employment in the wireline telecom sector increased dramatically following passage of the 1996 Act, reversing a negative trend in the years preceding the Act.

"Indeed, for the five years prior to the 1996 Act, employment in the wireline telecommunications sector was falling by an average of 2.3 percent annually," the Center said. "In 1994, the Bureau of Labor Statistics predicted this declining employment trend would continue (at least) through year 2004. In the six-plus years following the 1996 Act, employment in the wireline telecommunications industry reversed [that] trend."

#### CLECs Most Responsible For Job Growth

Based on forecasted employment trends from the pre-Act period, the Phoenix Center estimates that the 1996 Act produced an average of 105,000 wireline telecommunications jobs (on average) from February 1996 through July 2003. "Total employment in the industry remains 17 percent above trend – about 92,000 jobs – despite recent declines in employment in the sector following the collapse of the facilities-based CLECs caused jointly by anti-competitive activity by incumbents, overly optimistic business projections by entrants often based on nearly free access to capital, and an economic recession," the Center said.

Empirical analysis also suggests that CLECs are the primary source of growth in wireline telecommunications employment, with each additional CLEC in a state increasing telecommunications employment by nearly 200 jobs, according to the Phoenix Center's most recent findings.

"Thus, public policies that raise entry barriers by increasing the fixed and sunk costs of entry should be expected to reduce employment by shrinking the numbers of firms in the industry," the Center said. "The massive regulatory costs recently imposed on the industry by the FCC's Triennial Review Order and the potential fixed and sunk costs that may be imposed on entrants if state commissions reduce the availability of unbundled elements (primarily unbundled switching) are expected to reduce the number of competitive firms and, consequently, jobs in the wireline telecommunications industry."

Furthermore, under the regime designed by the FCC, CLEC business plans are "persistently at risk of eradication by the government as part of the regular reviews of unbundled element availability – proceedings that will be no doubt be initiated by the incumbents on a regular basis," the bulletin's authors wrote.

