

Reprinted From:
COMMUNICATIONS WEEK INTERNATIONAL
17 January 2000
[* Denotes Original Publication Page Cite Where Available]

PERSPECTIVE:
WHY FCC POLICY WILL NOT BRING TRUE COMPETITION

*Lawrence Spiwak**

Several years ago, then FCC general counsel and current FCC chairman William Kennard said he would take a “bowling ball” or “straight down the middle” approach to formulating U.S. telecoms policy. Recently, he defended this approach by claiming it “is the correct policy for a world of new technologies and convergence, where the primary objective is to protect consumer choice.”

What this servile approach means in practice, however, is that Mr. Kennard has no intention of developing a long-term vision of a pro-competitive market structure. Instead, he simply wants to appease everyone in the industry with consumer welfare left out of the question entirely.

Telecoms is a high-margin business. The ostensible purpose of restructuring, therefore, is to encourage new entrants and allow competitive pressures to push down margins nearer to cost. Indeed, if the public policy goal is to move from a monopoly market to a market characterized by multiple firms, then entry of more firms is the sine qua non of this entire exercise.

Yet Mr. Kennard’s policies (like Reed Hundt’s policies before him) have not sought to promote tangible new entry, but rather to reallocate rents among various segments of the industry to buy their silence in order to advance pet agendas such as universal service charges.

* *Lawrence J. Spiwak is president of the Phoenix Center for Advanced Legal and Economic Public Policy Studies (www.phoenix-center.org), an international think-tank based in Washington DC. The views expressed in this article do not represent the views of the Phoenix Center, its adjunct fellows, or any of its individual editorial advisory board members.*

Reprinted From:
COMMUNICATIONS WEEK INTERNATIONAL
17 January 2000
[* Denotes Original Publication Page Cite Where Available]

Thus, we do not have either competition or meaningful de-regulation, but rather “fair, competition-like outcomes accompanied by the benevolent use of market-friendly regulation.”

Indeed, the FCC’s actions over the last few years reveal a disturbing trend of quid pro quo among incumbents and new entrants: First, the FCC issues unbundling rules under the 1996 Telecoms Act to open the market to new entrants; it then approved the almost total horizontal reconcentration of the U.S. ILEC and cable industries; next, the FCC orders incumbents to provide “line sharing” at almost no cost to new entrants; it then approves the re-vertical integration of the market by granting Bell Atlantic’s petition to provide in-region long-distance service in New York.

This naked desire to preserve and allocate rents reveals the depth of the FCC’s cynicism under Mssrs. Hundt and Kennard. Think about it. Entry eliminates economic rents. Without economic rents, however, government has no leverage to extract “voluntary” concessions to reallocate wealth and perpetuate individual political narcissism.

Stated another way, current regulatory policies appear to be designed not to dissipate market power via competition but instead to transfer existing market power to the regulators themselves. Why? Because if the market can efficiently allocate resources, then regulators will have no patronage to doll out.

Thus, why have “competition” when you can have “choices”? Moreover, if rent allocation is sufficient to buy silence from both the private and public sector, then why even think about meaningful structural solutions to today’s competitive problems? So long as everyone gets a share of the pie, there is no real constituency for true competition. Instead, we are left with a “static, incumbent-centric perpetual resale model” under which everyone just resells the same lousy service.

Thus, consumers do not have a true choice of competitors – rather, their only choice is to whom they would like to write their monthly subscription checks out.