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PERSPECTIVE:

**WHY FCC RULINGS WILL HAMPER, NOT HELP,
COMPETITION**

*Lawrence Spiwak**

In previous commentaries, I have argued that many of the actions of the FCC have, in reality, done more to reduce the prospects for competition than to promote them. Unfortunately, we must now add another three FCC decisions that will seriously deter the prospects for tangible competition in the United States.

Strike One: On 31 May, the FCC proudly announced that it was going to reduce access charge fees paid by long-distance companies to local exchange carriers (ILECs.) To make a complicated story short, the FCC accepted a backroom deal offered up by certain industry participants whereby, in exchange for eliminating multiple access charges paid by consumers to long-distance companies, U.S. consumers would instead pay an increased flat monthly “subscriber line charge” (SLC) directly to the ILECs of \$4.35 per line ending up at \$6.50 per line in two years.

Long-distance companies are happy because it appears that their rates are declining. ILECs are happy because they have guaranteed themselves a steady revenue stream. The FCC cynically has rid itself of a thorny issue in a way that appears to lower user charges, but without materially hurting the Bells’ revenues.

* *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.*

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Strike Two: On 5 June, the FCC approved the merger of AT&T and Media One. This merger now gives AT&T some 30% of the U.S. multichannel delivered programming market, making it the dominant, if not exclusive, provider in its core territories. What makes this decision so cynical, however, is that it represents the exact opposite to what was promised to us seven years ago by the Hundt/Kennard administration – that is, meaningful competition for multichannel delivered programming.

So what happened? Basically, the FCC never developed a coherent policy paradigm and, as such used up its political capital with both the industry and Congress. Afraid to take a stand, therefore, the FCC essentially gave up on promoting competition and tried to obfuscate the issue with rhetoric that cable “clustering” will provide immediate and effective competition to local phone monopolies.

Hardly. U.S. cable systems were never designed to carry two-way voice traffic over a “star” architecture network using coaxial cable. Thus, overcoming the challenge of upgrading these systems to send voice is proving both costly and technologically frustrating. U.S. consumers should not be holding their breath in expectation of their cable operators offering reliable and competitive voice service any time soon.

Strike Three: On 16 June, the FCC approved the merger of Bell Atlantic/GTE (now Verizon). This merger creates a telecoms behemoth that controls more than one third of all local access lines in the United States. According to the FCC, this merger is in the public interest because the increase in scale and scope will help the merged entity to compete outside of its core territory. However, to think that one monopolist would have any real incentive to enter into another monopolist’s territory – as the FCC promises – is just wishful thinking.

In sum, it does not take a rocket scientist to realize there is something dreadfully wrong with this picture. Rather than promote new entry, the FCC simply condones state-sanctioned horizontal market division and engages in backroom deals to preserve economic rents all in the guise of promoting consumer welfare. Shame on them.

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