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Press Release

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NEW PHOENIX CENTER STUDY FINDS THAT U.S. UNBUNDLING PARADIGM COLLAPSED UNDER WEIGHT OF TECHNOLOGICAL ADVANCES AND UNREALISTIC ECONOMIC EXPECTATIONS

Study notes that while unbundling may have been an appropriate policy for monopoly world of 1996, U.S. needs a new policy regime for competitive reality of the 21st century

WASHINGTON, D.C. – The unbundling paradigm contained in the 1996 Telecommunications Act was one of the most ambitious regulatory experiments in American history. Yet, despite high expectations, less than a decade later the experiment was over. In a new study released today, the Phoenix Center attempts to discern what happened in order to see if there are any lessons that can be learned from the experience.

With the benefit of hindsight, the Phoenix Center demonstrates that the demise of the unbundling regime in the U.S. was driven by three underlying economic causes: (a) the expectations of policymakers for competitive facilities-based entry into the local wireline market were unrealistic; (b) the unbundling regime was incentive incompatible in that the incumbent local phone companies were required to surrender market share to entrants without any (permanent) offsetting benefit; and (c) the rise of new alternative distribution technologies expanding the availability and quality of competing voice services. The study concludes that while unbundling may have been a sensible policy for the monopoly communications world of 1996, the presence of inter- and intra-modal competition and the inherent incentive problems with unbundling make it unsuitable for today's marketplace. As such, the United States needs a new policy regime for the communications market of the 21st century.

“If there is one take away from our paper, we hope it is the recognition that firms are not passive recipients of regulation,” said study co-author and Phoenix Center President Lawrence J. Spiwak. “Hopefully, with the benefit of hindsight and lessons learned from the U.S. unbundling experience, future regulatory interventions in the communications marketplace will proceed with more humility and wisdom.”

“As a former senior economist for two national CLECs which relied heavily on unbundled access, I was on the front line of this debate and this paper outlines what I learned from that personal experience,” noted study co-author and Phoenix Center Chief Economist Dr. George

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Ford. "The incentive problems with unbundling are nearly unavoidable, and to think that this paradigm could be resurrected with a different result is, in my opinion, folly."

The complete copy of the study, PHOENIX CENTER POLICY PAPER NO. 45: *Lessons Learned from the U.S. Unbundling Experience*, may be downloaded free from the Phoenix Center's web page at: <http://www.phoenix-center.org/pcpp/PCPP45Final.pdf>.

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The Phoenix Center for Advanced Legal & Economic Public Policy Studies is a non-profit 501(c)(3) organization that studies broad public-policy issues related to governance, social and economic conditions, with a particular emphasis on the law and economics of telecommunications and high-tech industries.