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OUTSIDE VIEW: THE BROADBAND SHIBBOLETH

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WASHINGTON, Dec. 11 (UPI) - The telecom sector makes up over one-sixth of the U.S. economy, and when it sneezes the rest of the economy catches a cold.

The root of the current telecom meltdown - and therefore a major contributing factor to the current overall economic recession - is simple: the Regional Bell Operating Companies or "RBOCs" continue to retain in nearly every area of the country a near de facto monopoly over the proverbial "last mile" of the network, thus allowing them to sabotage new entrants and retain monopoly rents.

True, the landmark U.S. Telecommunications Act of 1996 was supposed to change all of this by forcing the RBOCs to open their local networks in exchange for permission to enter the long-distance industry - a prohibition in place since the time of the AT&T Divestiture.

Unfortunately, during the Clinton administration, the Federal Communications Commission, chaired by then-Vice President Al Gore's close friend Reed Hundt, failed in its mandate and instead managed to preserve, if not further entrench, the RBOCs' monopoly. (After all, so long as rents are preserved, who better to provide subsidized telephone service to rural areas and Internet access to the schools than an incumbent monopolist? Competition would just get in the way.)

Now that we need a box score to keep up with the almost daily bankruptcies of would-be "upstart" IT companies, the RBOCs are moving in

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for the kill by calling in bi-partisan support for the so-called "Internet Freedom And Broadband Deployment Act."

Co-sponsored by long-time RBOC stalwarts Republican Rep. Billy Tauzin, the powerful Chairman of the House Energy and Commerce Committee, and Democrat Rep. John Dingell, the ranking Member of the entire House, proponents of Tauzin-Dingell argue that legislative relief for the RBOCs from important competitive safeguards in the 1996 act is necessary to break the cable companies' lock on the so-called "broadband" market and to accelerate the deployment of "broadband" services to schools and rural areas.

Unfortunately, the term "broadband" has become an RBOC shibboleth for glossing over non-resolution of the last-mile problem. In fact, the cynicism has grown so deep that Tauzin was recently quoted as noting that the broadband debate is not about finding ways to mitigate the RBOCs market power over the proverbial "last mile" of the network, but instead "about America," especially for "our young men and women out there in Afghanistan." After all, argued Tauzin, "We've got to give them a greeting that's worthy of their sacrifice. That's how profound this is."

Can anyone seriously believe that our soldiers, airmen and Marines battling the Taliban actually give a lick about legislation that would benefit only four mega-companies? No one is challenging Tauzin's patriotism, but he is gravely mistaken about the fundamental economics of the telecoms business.

First, under the 1996 Act, the RBOCs are not prohibited from providing high-speed data services. They are, in fact, by far the nation's leading providers of broadband "digital subscriber line" or "DSL" services today. And with the imminent collapse and disconnection of the customers of leading cable Internet provider Excite@home, the RBOCs stand to increase their dominant market position.

By arguing now that the current pro-competitive provisions in the 1996 Act stymie their investment strategies, the RBOCs sound just like their third-world telephone monopolist counterparts who threaten to pull out of a market if they face competitive pressures.

Besides, sometimes simple technical considerations - and not legal restrictions - prohibit the RBOCs from providing xDSL services in competition with cable modems. For example, in my neighborhood, we ran

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out of extra lines. As a result, because I need multiple lines into my house to accommodate my telephone and fax needs, my one existing line was electronically “split” and now cannot accommodate the necessary bandwidth required for DSL service. Does this problem require an act of Congress to solve? The RBOCs seem to think so.

In the end, the debate over the Tauzin-Dingell legislation is about whether Americans will have multiple competing providers of broadband services. The idea that the cable and telephone companies are all the competition we need is now an antiquated myth. Both are monopolists in their sphere.

More important, they do not compete against each other for their core products – the consumer’s phone company is not offering to sell him cable service and his cable company is not offering him telephone service. Rather than duke it out, it is more rational and profitable for both companies to stick to their specialties. That way, the rates that the consumer must pay for both companies can continue to rise.

The miracle of technology will not change this basic fact any time soon. On one hand, most cable systems were never designed to carry two-way voice traffic; instead, they were constructed using a “star” architecture for the exclusive purpose of carrying one-way signals of multi-channel delivered video programming. On the other hand, xDSL is not yet capable of providing serious competition to my cable company as, for example, a satellite system can.

The RBOCs discovered this reality over six years ago with their failed “TeleTV” experiment. Instead, all they managed to produce was a weak competitor to the local video store by offering old re-runs of “sitcoms on a “video-on-demand” basis.

Finally, while proponents of Tauzin-Dingell maintain that the bill will not affect the market for voice services, they again ignore the basic economics of the business.

From a supply-side perspective, many of the facilities used to provide voice and data are the same.

From a demand side perspective, even though voice service might be the least profitable product for a provider, voice service nonetheless remains a key “anchor” telecoms product for most consumers.

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This is comparable to the way access to anchor programming such as CNN or MTV is crucial for meaningful competition to local cable companies - something that, ironically, Tauzin worked very hard to ensure in the past.

The FCC recognized this important economic fact over 20 years ago when it first looked into issues of DSL deployment, referring to DSL as "data under voice" or "DUV" because then, as now, voice is still the "anchor" product in a bundle of telecoms products and services in most consumers' eyes.

So what is Tauzin-Dingell really all about? While proponents argue the bill is all about promoting accelerated deployment of "broadband" in the short term, it really aims to preserve the RBOCs' market power in the "last mile" for the long term.

Tauzin-Dingell therefore would allow politicians to use the promise of technology as a smokescreen to mask their failure to resolve the fundamental structural problems of the market.

After all, as Professors Carl Shapiro and Hal Varian argue in their book "Information Rules," "Technology changes. Economic laws do not."

Until policymakers understand this basic fact and do something to promote - rather than deter - new competitive entry, we will continue to march along the road back to monopoly we are now upon.

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