PHOENIX CENTER FOR ADVANCED LEGAL & ECONOMIC PUBLIC POLICY STUDIES
www.phoenix-center.org

5335 Wisconsin Avenue, NW
Suite 440
Washington, D.C. 20015-0234
Tel: +1 (202) 274-0235
Fax: +1 (202) 318-4909
www.phoenix-center.org

Press Release

Contact: Lawrence J. Spiwak
Phone: +1 (202) 274-0235

FOR IMMEDIATE RELEASE
Tuesday, October 6, 2009

SPECIAL ACCESS PRICE REGULATION REDUCES ECONOMIC WELFARE

Phoenix Center Study Says Further Deregulation is Better Policy Choice

WASHINGTON, D.C. – Restoring price regulation to the market for high capacity Special Access telecommunication services would reduce economic welfare even if one assumes monopoly market conditions, the Phoenix Center says in a new POLICY PAPER released today. The PAPER, which evaluates price regulation under market conditions described by proponents of re-regulation, says that the current debate is primarily a "quibble over rents" between buyers and sellers and adds: "a policymaker interested in maximizing economic welfare should seek to expand, not contract, pricing flexibility for these services."

The POLICY PAPER, *Market Definition and the Economic Effects of Special Access Price Regulation,* concedes that its findings will prove "surprising" and "even unnerving" to many involved in the debate, which has divided the telecom community and pitted buyers of high capacity lines against sellers. Proponents of renewed regulation have argued for years that the FCC erred in granting pricing flexibility to suppliers in 1999 because the market is not sufficiently competitive. But the Phoenix Center PAPER says that based on the proponents' own arguments—monopoly supply and point-to-point markets—the regulation of Special Access services, particularly channel terminations, is unambiguously welfare reducing. The analysis demonstrates once more that the analytical case for re-regulating Special Access services is "woefully inadequate and poorly conceived." The PAPER further concludes that policymakers have a better chance of cutting special access prices by promoting entry of alternative high capacity service networks by adjusting spectrum policy, enhancing access to poles, ducts, conduits, and rights-of-way, and promoting demand aggregation.

The PAPER also observes that price regulation "probably reduces investment in communications infrastructure" and may, therefore, conflict with the national goal of expanding broadband deployment to unserved communities, especially in rural America. Phoenix Center President and co-author Lawrence J. Spiwak said, "the debate today regarding broadband deployment is more about expanding availability in rural markets than it is about regulating existing circuits. The creation of new capacity and new circuits will not be served well by price regulation, particularly if subsidies are required to make the investments viable. If regulation provides no benefits, as we demonstrate, expanding regulation is all risk with no reward."

~ more ~

Dr. George S. Ford, the Phoenix Center's Chief Economist, says the study shows that much of the evidence used to support expanded regulation of Special Access services is beside the point. "The proponents of regulation have repeatedly argued that Special Access markets are point-to-point and monopolistic in nature," Dr. Ford says. "If true, then price regulation serves no purpose but to transfer dollars from sellers to buyers. This transfer imposes costs, however, and thereby makes society worse off. Adhering to the assumptions about the market made by the proponents of regulation leads to the surprising conclusion that the prices for Special Access services, and in particular channel terminations, should be immediately and ubiquitously deregulated."

The complete copy of the study, PHOENIX CENTER POLICY PAPER NO. 37: *Market Definition and the Economic Effects of Special Access Price Regulation,* may be downloaded free from the Phoenix Center's web page at: http://www.phoenix-center.org/pcpp/PCPP37Final.pdf.

The Phoenix Center is an international, 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.

# # #