Personal Remarks of
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Market Structure Matters

Sunk Costs of Entry/Exit + Barriers to Entry =

Only a Few “Facilities-Based” Entrants

Wishing for a Different Result Won’t Change this Fact
Impact for Local Telecom and Unbundling

• Legal: section 251(d)(2) “impairment”
  • What about subsequent entrants?
  • Are they “impaired” without access to wholesale alternatives?

• Practical
  • Does it matter to consumer welfare?
  • Or, why would forcing all telecom entrants to be vertically-integrated between network and services (which is what denying unbundled access would do) be “bad”?
Forced Vertical Integration

Would we be better or worse of if we…

• Forced Dell to build microprocessors before they were able to sell a PC?
• Forced Intel to write operating system software before sell microchips?
• Forced Microsoft to make PCs?

Why is Local Telecom Different?
Will “intermodal” competition work?

- Different Networks, Different Capabilities (“non-homogeneous”)
- Different geographic scale
- Risk (benefit?) of product differentiation
- Risk of tacit collusion
- Examples:
  - DBS/cable competition
  - Cable telephony
Wholesale Telecom Markets

“Competitive” Telecom Markets have Vibrant Wholesale Sectors…

- Vibrant wholesale sectors: long-distance, international, satellite telecom, mobile wireless
- No vibrant wholesale sector: local telephone, multichannel video
- Moreover, government has assisted/promoted creation of these wholesale markets
The Lesson

Public policy should promote and foster the development of vibrant, effective, and efficient wholesale markets at all layers. Only then will conditions for retail deregulation be in place.