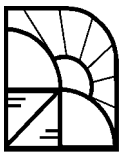


PHOENIX FOR ADVANCED LEGAL & ECONOMIC
CENTER PUBLIC POLICY STUDIES
www.phoenix-center.org

PHOENIX CENTER POLICY BULLETIN NO. 8

27 January 2004

THE $10 BILLION BENEFIT OF UNBUNDLING:
CONSUMER SURPLUS GAINS FROM COMPETITIVE PRICING INNOVATIONS

Abstract: This POLICY BULLETIN measures the gains to consumer welfare of the new nation-wide, "all you can eat" competition produced by the market-opening provisions of the Telecommunications Act of 1996. Analysis reveals that the consumer welfare gain amounts to approximately $10 billion per year, and those American households that have switched to these all-distance plans are, on average, saving approximately $429 every year – more than a dollar a day. As such, great care must be taken to ensure that policymakers stand by the pro-competitive bargain codified by the 1996 Act (*i.e.*, Bell company long distance entry in exchange for unbundling the "last mile").

Since the passage of the Telecommunications Act, one of the most significant developments has been the recent explosion of nation-wide, "all you can eat" competition. These services free consumers from per-minute local and long-distance charges in favor of a single, flat monthly fee.[1] These products and services were first brought to market in 2002 by competitive providers such as Z-Tel, AT&T, MCI and Sprint, but are currently also the standard flagship products of the incumbent Bell Companies now that those companies have been authorized to provide long-distance service throughout the United States. This POLICY BULLETIN shows that the consumer welfare gains from these "all-distance"/"all you can eat" packages amounts to

[1] This is not to say that consumers and businesses have not benefited from other types of competition resulting from the 1996 Act. For example, new entrants now serve approximately 14.7% of the local market. FCC, *Local Telephone Competition: Status as of June 30, 2003* (rel. Dec. 2003). In addition, the number of wireless phones has increased from approximately 100 million in December 2000 to 140 million in June 2003. *Id.* Table 13. In addition, 20.64 million homes and small businesses are connected to high-speed data access, about **four times** the number of lines in service in December 2000 (5.17 million). FCC, *High-Speed Services for Internet Access: Status as of June 30, 2003* (rel. Dec. 2003).

PHOENIX CENTER FOR ADVANCED LEGAL & ECONOMIC PUBLIC POLICY STUDIES
5335 Wisconsin Avenue, NW, Suite 440
Washington, D.C. 20015
Tel: (+1) (202) 274-0235 Fax: (+1) (202) 244-8257//9342 e-Fax: (+1) (202) 318-4909
www.phoenix-center.org

approximately ***$10 billion per year***.[2] As a result, American households that have switched to these all-distance plans are, on average, saving approximately $429 every year – more than a dollar a day.

I. Background

Twenty years ago in January 1984, the U.S. government structurally separated that part of the network thought capable of entry and competition – the long distance segment – from the "last mile", which most considered to be a "natural monopoly" and, ergo, incapable of sustaining competition. Through tremendous hard work and analytical rigor, the Reagan Administration's bet paid off, and U.S. consumers were eventually rewarded with a highly competitive long distance market. Indeed, by: (1) lowering barriers to entry for new competitors; (2) creating a healthy wholesale market for long distance capacity; and (3) preventing the incumbent firm from controlling "bottleneck" facilities of the "last mile", the long distance market was transformed from one player, to three players, and now to at least seven national networks used by an estimated 1,000 carriers that are providing consumers with competitive choices.[3]

When Congress passed the 1996 Act, Congress made a very deliberate decision to re-vertically integrate the market, albeit with one key caveat: As nobody wanted to recreate the old "Ma Bell" vertically-integrated monopoly on a regional basis, the 1996 Act clearly provides that the incumbents must unbundle their networks and allow new competitors to enter into the local market using unbundled loops, switching, and transport (commonly referred to as the UNE-Platform or UNE-P) as a pre-condition for Bell company ability to sell long distance services.[4] Fortunately, this combination of pro-competitive policy initiatives – *i.e.*, (a) the

---

[2] The calculations in this paper focus on gains in consumer surplus. In general, increases in surplus enjoyed by customers from a price reduction will exceed the simple reduction in customer expenditures from this price reduction. This is because price reductions benefit consumers *both* by reducing the amount consumers must spend to maintain the same level of purchases, but *also* by permitting consumers to increase the number of minutes that they use each month. Thus, this paper's calculation of a $10 billion increase in consumer surplus due to the nation-wide, "all you can eat" packages is quite consistent with other calculations such as that of CompTel finding potential annual residence customer expenditure savings of $9.24 billion. *See,* http://www.comptel.org/press/jan7_2003.html.

[3] TRENDS IN TELEPHONE SERVICE, Federal Communications Commission, Wireline Competition Bureau, Industry Analysis Division (Aug. 2003), at Table 9.4.

[4] 47 U.S.C. §271; *see also* V*erizon v. FCC*, 122 S. Ct. 1646, 1661 (2002) ("Congress passed a ratesetting statute with the aim not just to balance interests between sellers and buyers, *but to reorganize markets by rendering regulated utilities' monopolies vulnerable to interlopers*, even if that meant swallowing the traditional federal reluctance to intrude into local telephone markets.")(Emphasis supplied.)

successful creation of an extremely robust long-distance market; and (b) the introduction UNE-P – provided fertile ground for potential benefits to U.S. consumer welfare.

That is to say, this POLICY BULLETIN finds that the bargain embodied in the Telecommunications Act – *i.e.*, Bell company long distance entry in exchange for their unbundling of the "last mile" – is paying off for American consumers to the tune of $10 billion per year. These one-price plans introduced to the market by competitive entrants using UNE-P typically consist of a flat charge of about $50 to $70 and allow consumers to make *unlimited* local and domestic long distance charges at no additional charges per call or per minute. In essence, this important pricing innovation ensures that no residential consumer has to spend on average more than about $60 per month for as much domestic local and long distance service as can be consumed, and these packages often include value-added features such as Voice Mail, Caller-ID, and other desirable services. Since millions of residential consumers (households) spend well over $60 per month on these services when purchased on an a la carte basis, this competition-driven pricing innovation represents a tremendous boon for consumers and economic growth. Importantly, it was *competitors* and *competition* that first brought these innovations to market – not regulated monopolies.[5]

As would be expected, market shares between incumbents and new entrants are far from symmetrical. Currently, 32.4 million consumers purchase local and long distance service packages from the Bell companies, compared to 14.2 million lines served by competitors (not all of these are the unlimited usage bundles).[6] Yet, considering that this policy framework created multi-billion dollar savings to consumers, the analysis set forth in this POLICY BULLETIN

---

[5] These products were first offered by new entrants in the 2002. Local entry by new companies was crucial for these "all-you-can-eat" plans to emerge. By becoming a local provider, an entrant no longer needs to pay per-minute switched access charges to incumbent local telephone companies. These charges amounted to five cents a minute as recently as 2001, which made unlimited plans unthinkable for new entrants. Without local competition, the only potential providers of a bundle were the incumbent local exchange providers. Importantly, in areas where the incumbent local carrier was able to sell local/long-distance bundles before competition emerged, the local telephone incumbents continued to charge customers per-minute fees for years.

[6] These estimates are derived from recent 2003 SEC reports of Bell companies. *See also*, Remarks of Commissioner Kevin J. Martin 21st Annual Institute on Telecommunications Policy & Regulation (December 5, 2003) (discussing 2Q 2003 figures). The WASHINGTON POST recently reported that Verizon Communications, Inc., the largest local service provider in the nation and the third-largest long distance provider in the nation, has now signed up more than 50 percent of its local residential customers in some states for long-distance service. Griff Witte, *An Evolutionary Edge: Local Phone Firms Pass Long-Distance Companies,* WASHINGTON POST (December 3, 2003) at Page E01. Significantly, in the twenty years since the original AT&T Divestiture, MCI and Sprint (prior to the passage of the 1996 Act the number two and three long distance providers respectively) *combined* never reached a 50% share in the long-distance market.

concludes without much hesitation that the fundamental trade-off of Section 271 of the 1996 Act is succeeding and should be maintained.

This POLICY BULLETIN estimates the consumer gains from the pricing innovations made possible by unbundling proceeds as follows: Section II sets forth the analytical basis for the computation of consumer surplus gains related to the unlimited calling plans. After a description of the algorithm, Section III turns to the estimation procedure and data set used to estimate the gain in consumer surplus from all-distance packages. The estimation methods indicate that the unlimited usage plans for local and domestic long distance service can produce about $10 billion in additional consumer surplus annually, or $429 every year ($35.75 per month) for each household that has switched to these new plans. This increased surplus is substantial. It is equivalent to, roughly, 20% of total consumer expenditures on local and domestic long-distance services. Moreover, this estimate actually understates the full gain to consumers because the calculations are limited to households with only one phone line (about 80% of households) and the calculations ignore the consumer surplus gains related to the use of certain calling features (like Voice Mail or CallerID) that are included in the competitively offered bundles but may not have typically been purchased by those consumers before the advent of competitive offerings.[7] Conclusions and policy recommendations based on the preceding analysis are contained in Section IV.

II. Analytical Framework

Our consumer welfare estimation procedure follows from simple microeconomic theory and can be summarized using a simple graphical analysis. Consider a telecoms service (say, long distance) that has some usage price (*e.g.*, price-per-minute) of P_U. A representative consumer's downward-sloping demand curve is illustrated in Figure 1, and at a particular price P_U the consumer would make Q_U minutes of long-distance calls per month. Consumer surplus is the difference between what a consumer is willing to pay (the value of any product or service) and what the consumer actually pays for that product or service.[8] Graphically, consumer surplus is measured by the area under the demand curve but above the price, so at price P_U and quantity Q_U, the consumer has surplus equal to the triangular area that is labeled "A" in the figure. Total expenditures for the good are equal to area B in figure ($=P_U \cdot Q_U$). Total consumer value of the consumption of Q_U units is area A and B, but the net value (or consumer surplus) is area A, since B dollars are spent to acquire the good.

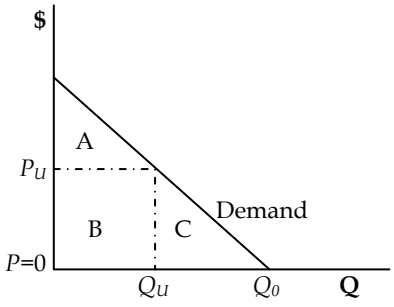
---

[7] This latter omission could lead to a sizeable understatement of consumer gains from unbundling-based competition.

[8] *See* R. B. Ekelund Jr. and R. D. Tollison, 6 ECONOMICS: PRIVATE MARKETS AND PUBLIC CHOICE at 90.

If the usage price falls to zero (P = \$0, which is what happens if long-distance service is provided without a usage charge, as part of a bundle), then the consumer will increase his or her consumption to Q_0. Now, the gross consumer benefit from consumption is equal to the areas A, B, and C. If the fixed charge paid to receive the zero usage price is equal to area B (or $P_U \cdot Q_U$ as before), then the net gain in consumer surplus is area C, since the consumer already had area A in surplus and returns area B to the seller in the form of a fixed charge.[9] If the fixed charge (*e.g.*, \$44.95/month) is less than area B, then some portion of the benefits in area B will accrue to the consumer as consumer surplus.

Figure 1. Consumer Surplus



This simple graphical example illustrates the nature of the analytical framework employed here to estimate the consumer surplus gains from unlimited plans for local and domestic long distance service. The framework is a bit more complicated than that in the figure because local and long distance plans already include some fixed fees. The actual approach contained herein is more sophisticated and takes into account the consumer welfare impact of fixed fees (which tend to be higher than "local-only" packages alone). In this model, the consumer surplus (S) for customer i is

$$S_i = B_i^A + B_i^U(Q_i^U(P_i^U)) - P_i^A - P_i^U Q_i^U(P_i^U) \quad (1)$$

where B^A is the benefit from access to the network (*i.e.*, local service), B^U is the benefit from usage, P^A is the price of access, P^U is the price of usage, and Q^U is the quantity of usage. Demand curves slope downward, so the quantity of usage is negatively related to the price of usage (or $\Delta Q^U/\Delta P^U < 0$). Usage benefits are positively related to the quantity of usage ($\Delta B^U/\Delta Q^U > 0$). Total consumer surplus is simply the sum of all the S_i (or $\sum S_i$ for all i).

---

[9] *Id.*

Assuming that the bundle itself has no intrinsic value and simplifying notation, the increase in consumer surplus attributable to bundled pricing of local and long distance services is

$$\widetilde{S}_i - S_i = (\widetilde{B}_i^U - B_i^U) - (P_i^B - P_i^A - P_i^U Q_i^U). \quad (2)$$

where $\widetilde{S}$ indicates the surplus obtained when purchasing the bundle and P^B is the price of the bundle. There is no usage price for the bundle. Using (2), surplus can be calculated in a straightforward manner. First, using a large sample of customers, P^A and $P^U Q^U$ can be calculated directly. The bundled price P^B is simply the current price for a bundle of local and long distance services, which is readily obtained on carrier websites and other sources. Assuming expenditures constant, the difference in benefits ($\widetilde{B}_i^U - B_i^U$) given *linear* demand is $0.5(-\Delta P^U \cdot \Delta Q^U)$. Recognizing that $-\Delta P^U$ is simply P^U because the usage price in the bundle is zero, we can write the remaining portion of the benefit as $0.5(P^U \cdot \Delta Q^U)$. The only unknown is ΔQ^U, which represents the increase in quantity of usage in response to the reduction in the usage price. This parameter can be approximated by estimating the slope of the demand curve for the consumer using least squares regression.[10] The final calculation of the change in consumer surplus is, then,

$$\widetilde{S}_i - S_i = (0.5 \cdot P_i^U \cdot \Delta Q_i^U) - (P_i^B - P_i^A - P_i^U Q_i^U). \quad (3)$$

Not all consumers spend enough on local and long distance service to warrant purchasing the unlimited usage bundle. Assuming consumers are rational and informed, we include in the group of consumers switching to the bundled offering only those for which the benefits of the switch exceed the cost. Thus, a switch occurs only if

$$0.5 \cdot P_i^U \cdot \Delta Q_i^U > P_i^B - P_i^A - P_i^U Q_i^U.[11] \quad (4)$$

Note that this switching decision assumes that consumers do not value the bundle itself, but only the potential price decrease that it provides. Further, because it is perhaps unreasonable to assume that all customers for whom Equation (4) is satisfied do, in fact, switch to the bundled offering, we offer some sensitivity analyses on the switching decision.

---

[10] The slope of the demand curve, β, is equal to $\Delta Q^U/\Delta P^U$, so that $\Delta Q^U = \beta \cdot P^U$ (because P^U is zero for the unlimited plans). D. Gujarati, BASIC ECONOMETRICS (2002), at 164-5.

[11] This condition states that the gain in consumer surplus must exceed any price increase. This condition is easier to satisfy, of course, if the bundle price is less than the component prices.

Equation (3) and (4) form the basis of our estimation procedure. We then computed and estimated the required parameters are computed based upon a sample of over 16,000 long distance bills. We turn to the estimation approach in the next section.

III. Estimation of Consumer Surplus Gains

All of the inputs necessary for this computation are obtained from a sample of over 16,000 telephone bills collected over six months.[12] To avoid masking the benefits of the new offerings by using data that already incorporates the effects of competition and unlimited usage bundles, we use data from the pre-bundle year of 1999. From these data, we can compute the prices paid and quantities consumed by consumers, and these parameters constitute much of those required by Equations (3) and (4). We also need to estimate the slope of the demand curve for the consumer (or consumer type), and we do so using this data. Importantly, our analysis is restricted to households with only one telephone line. We exclude homes with multiple lines because we are unable to correctly allocate expenditures across lines, thus making the necessary calculations impossible (or unreliable). Therefore, our computations will understate consumer welfare gains, since we are excluding approximately 20% of U.S. households from our analysis.[13] This understatement is significant, because consumption of telephone services by households with more than one telephone line is likely to be significantly larger than those with a single line. As a result, our $10 billion annual estimate is likely to be understated by more than 20%. We also ignore any consumer benefit from the use of vertical features (like voice mail or CallerID) that are often included in the one-price bundles of local and long distance services. These services, no doubt, have value to many customers, but consumption of those services has been hampered though high prices charged for these services individually. It seems clear that our estimates are biased downward (perhaps substantially), but it is perhaps better to have a lower bound estimate than no estimate at all.

The output expansion (ΔQ^u), caused by pricing falling to zero, is computed using an approximation of the slope of the demand curve for a customer obtained by least squares regression. The regression of Q^u on P^u and demographic dummy variables indicating the use of a cell phone, cable television subscription, the presence of a senior citizen, internet subscription, and a home business. Demographic variables were included as standalone regressors as well as interacted with price to allow the elasticity to vary based on these factors,

---

12 The data is from the *Paragren* database. For other uses of the data, s*ee* T. R. Beard and G. S. Ford *Competition in Local and Long Distance Markets*, THE INTERNATIONAL HANDBOOK OF TELECOMMUNICATIONS ECONOMICS, VOL. 1, (Gary Madden ed. 2002).

13 *See* TRENDS IN TELEPHONE SERVICE, *supra* n. 3 at Table 7.4.

thereby producing an elasticity estimate for a variety of consumer "types."[14] Consistent with economic theory, income level was also included as a regressor. Demand is assumed to be linear, as illustrated in Figure 1.[15]

Using Equation (4), we select from the sample of single-line customers those customers that would benefit from switching to the unlimited plan (at the assumed price).[16] Next, the consumer surplus gain to each consumer is computed using Equation (3), and the total surplus gain is simply the sum of all the individual gains in consumer surplus (extrapolated out to the entire population of single-line telephone users).[17] Recognizing that our computation of total consumer surplus gain provides a single value and is based on a sample, we compute a standard deviation for the estimate of surplus gain using the bootstrap procedure.[18] For this procedure, we create 100 additional datasets by re-sampling from our initial dataset. We re-compute the surplus gain for each of these 100 samples by repeating the entire algorithm for each bootstrapped sample, and then using the outcomes to compute the mean and standard deviation of the consumer surplus gain. Using these statistics, confidence intervals are computed.[19]

Consumer surplus gains from unlimited local and long distance plans are summarized in Table 1. The gains are computed at different assumed prices for the bundle.[20] Keep in mind that these calculations are for homes with only one phone line, as multiple-line homes have been excluded from the analysis, and any gains from vertical features are also excluded.

---

[14] Gujarati, *supra* n. 10 at 516-517.

[15] The sample average elasticity is -0.69, which is consistent with earlier estimates of the demand elasticity of domestic long distance service. The elasticities are computed for groups of customers where the groupings are based on the included regressors.

[16] This percentage will be biased downward by the exclusion of consumer value for vertical services, which will increase the surplus gains from switching. Excluding multi-line customers from our analysis likewise may bias the switching percentage downward. These exclusions cannot produce an upward bias, since consumers are not required to switch to the bundled plan if the benefits of doing so are negative.

[17] The final sample consists of 16,347 monthly bills, so our sample is about 0.0118% of residential access lines (127.8M). See TRENDS IN TELEPHONE SERVICE, Industry Analysis Division, Common Carrier Bureau, Federal Communications Commission, (August 2001) at Table 8.4. About 83% of households in the sample had a single phone line and our extrapolation of surplus to all households takes this statistic into account.

[18] *See, e.g.,* D. A. Freedman, *Bootstrapping Regression Models*, 9 ANNALS OF STATISTICS 1218-28 (1981); B. Efron and R. J. Tibshirani, AN INTRODUCTION TO THE BOOTSTRAP (1993).

[19] Gujarati, *supra* n. 10 at 786.

[20] We add the average tax rate for long distance service to the bundle price and long distance prices for compatibility with the other data (taxes are included in local and local toll). The average tax rate for the sample was 8.3%.

From a bundle price range of $50 to $70, the gain in consumer surplus ranges from about $14B to $7B annually. The 95% confidence intervals of the estimates are narrow, with the difference between the bounds and the mean being only about 5% (so our point estimates can be described as ±5%). At the $60 bundle price, which is probably the closest to the current price, the total gain is about $10B annually.[21] To put this gain in perspective, this gain is equivalent to nearly 20% of total expenditures on local and domestic long distance services.[22] On average, those who switch to the unlimited plan have gains of about $429 annually. Assuming a $60 rate, over a five year time period, the present value of the consumer surplus gain is about $47B.[23]

Table 1. Consumer Surplus Gains for Homes with Single Line Telephone Service

Bundle Price	Total Consumer Surplus Gains (yr)			Surplus Gains as % of Existing Expenditures, All Consumers	Surplus Gain Per-Switching Customer (yr)	Surplus Gains as % of Existing Expenditures, Consumers that Buy Bundle
	Lower Bound	Point Estimate (Average)	Upper Bound			
$50	$13.4B	$13.8B	$14.2B	23%	$416	45%
$55	$11.5B	$11.9B	$12.3B	20%	$422	43%
$60	$9.8B	$10.2B	$10.6B	17%	$429	41%
$65	$8.4B	$8.8B	$9.2B	15%	$439	39%
$70	$7.3B	$7.6B	$7.9B	13%	$448	38%

Notes: 95% Confidence Intervals reported.

All the gains summarized in Table 1 assume that every customer with a positive gain to switching to the unlimited plan does so. To relax this assumption, we construct a number of switching scenarios. For example, in Scenario 1, we assume that of customers with a positive net surplus gain of $25 switch to the unlimited plan (with 100% probability), and those with no surplus gain do not. The probability of switching is *linear* in surplus gain from $0 to $25, so that there is a 50% probably of switching if the surplus gain is $12.50. Additional scenarios, all assuming linear probabilities between the extreme values, are summarized in Table 3. Overall, the consumer surplus gains remain large ($6.4B to $9.6B), irrespective of the switching scenario. Even under the most extreme scenario (Scenario 3), the consumer surplus gains to American consumers are $6.4B yearly.

---

[21] The advertised prices for bundled services do not include the Subscriber Line Charge and regulatory fees, so a $50 advertised prices will, in the end, be more like a $60 total charge.

[22] In the sample, the average annual expenditure on local and domestic calls was $607.

[23] Computed using a 3.19% discount rate, which is the yield on the five-year Treasury bond in October 2003 (bonds.yahoo.com).

Table 2. Sensitivity Analysis on Switching Assumption

Scenario	Do Not Switch	Switch with 100% Probability	Total Surplus Gain Annually	Percentage of Total Expenditures By Single Line Customers
Base Case ($60)	Gain ≤ $0	Gain > $0	$10.2B	17%
Scenario 1	Gain ≤ $0	Gain ≥ $25	$9.6B	16%
Scenario 2	Gain ≤ $0	Gain ≥ $50	$8.4B	14%
Scenario 3	Gain ≤ $0	Gain ≥ $100	$6.4B	11%

The consumer gains summarized in Table 1 consist of two parts: (a) expanded usage and (b) reduced expenditures (at the former quantity of usage). Perhaps of interest to some is how much of the surplus gain is attributable to the expansion of usage (*i.e.,* area C in Figure 1). Setting ΔQ^u to zero and the bundle price to $60, the total consumer surplus gain is $6.7B, or about 66% of the surplus gain from the complete model (*i.e.,* $10.2B from Table 2). This surplus gain is that attributed solely to the expenditure reduction (usage is unchanged), indicating that the output-expansion component of the surplus increase (area C in Figure 1) accounts for about one-third of the total gain. Reducing the output expansion by one-half renders a surplus gain of $8.4B, or 82% of the gain including the expansion effect. Even ignoring the expansion effect, the surplus gains are still large. These sensitivity calculations also show that the majority of the surplus gain is accounted for by an expenditure reduction by consumers (with usage unchanged) and not output expansion, though the output expansion contributes billions in additional consumer surplus.

In summary, the consumer welfare gains from "all-distance" packages are large and significant. Our estimate of $10 billion annually stands at the middle of a range of estimates. Even our low-end estimated demonstrate significant and substantial savings. Importantly, on average, American households that have switched to "all-distance" packages are saving $429 every year, or more than a dollar a day.

IV. Conclusions and Policy Implications

These significant consumer welfare gains from "all-distance" plans accrue to the American economy as a whole. Much as the original AT&T Divestiture and long-distance competition transformed an industry in which consumers kept egg-timers by their telephone so as keep their long-distance bills low, the innovation of "all-distance" plans opens up entirely new possibilities for American consumers. Parents can now work at home and in rural areas and can make as many calls as they want for a low, fixed monthly fee. Telecommuters are saving hundreds, perhaps thousands of dollars every year.

These consumer benefits are the direct result of the fundamental bargain of Section 271 of the 1996 Act. Because of regulatory initiatives at the federal and state level, the benefits of that

bargain have only begun to accrue to American consumers in the last four years. Under Section 271, Bell companies can now offer long-distance services, and the competitors that first brought these "all-distance" plans to market can offer those bundles because they can access to Bell company local networks.

This achievement stands on the shoulders of regulatory policies that have been designed to spur telecommunications competition and entry for decades. For example, in the *Competitive Carrier* and *Computer II* proceedings, the FCC created an underlying regulatory structure that facilitated the development of sophisticated (and competitive) long distance and data services that enabled the Internet to be free from dominance by the monopoly Bell system – a public policy that still benefits American consumers decades later. If regulators stay the course and maintain the fundamental bargain of section 271 so as to create a workably competitive market for wholesale "last-mile" access, then a similar change long-term market structure might take place that could result in significant long-term benefit to the American economy.[24]

Yet, these consumer benefits are fragile, as any restriction of the availability of key unbundled elements or an increase in wholesale price for elements could stymie, if not outright destroy, competitive entry.[25] As such, reversing this course would have an *immediate* and *substantial* adverse impact upon American families and could result in rate increases on the order of several hundred dollars per year per household. If the positive trend of consumer benefits is to continue, therefore, then great care must be taken to ensure that policymakers do not retreat from the pro-competitive bargain mandated by the 1996 Act – *i.e.,* Bell company long distance entry in exchange for full unbundling of the "last mile."

---

[24] *See,* Lawrence J. Spiwak, *What Hath Congress Wrought? Reorienting Economic Analysis of Telecommunications Markets After the 1996 Act*, ANTITRUST MAGAZINE (American Bar Association, Spring 1997) (http://www.phoenix-center.org/library/ reorient.doc); *see also* T. Randolph Beard, George S. Ford, and Lawrence J. Spiwak, *Why ADCo? Why Now? An Economic Exploration into the Future of Industry Structure for the "Last Mile" in Local Telecommunications Markets,* 54 FED. COM. L.J. 421, 459 ("while the number of local access networks the market can sustain may be *few*," the creation of a vibrant wholesale markets "nonetheless permits the number of providers of advanced telecommunications products and services to be *many*, which – after all – is the *raison d'être* of market 'restructuring'").

[25] *See, e.g.,* 19 November 2003 Testimony of John Thorne, Executive Vice President and Deputy General Counsel – Verizon, before the House Judiciary Committee ("wholesale [margin] that's available to UNE loops is thin"); 9 September 2003 Remarks of Ronald Dykes, Chief Financial Officer – BellSouth at the Morgan Stanley 8th Annual Global Media & Communications Conference ("There are a lot of regulatory factors floating around, but it wouldn't take but maybe one of these to have a pretty fundamental change in this environment, given the - given the thinness of margins in UNE-P provisioning").

PHOENIX CENTER FOR ADVANCED LEGAL & ECONOMIC PUBLIC POLICY STUDIES
5335 Wisconsin Avenue, NW, Suite 440
Washington, D.C. 20015
Tel: (+1) (202) 274-0235 Fax: (+1) (202) 244-8257//9342 e-Fax: (+1) (202) 318-4909
www.phoenix-center.org