

**Structural Problems & Firms' Observed
Conduct: Economic Prescriptions for
Future Growth
or
“Is it the Long Run Yet?”**

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Phoenix Center
2002 Annual Telecoms Symposium
November 20th, 2002

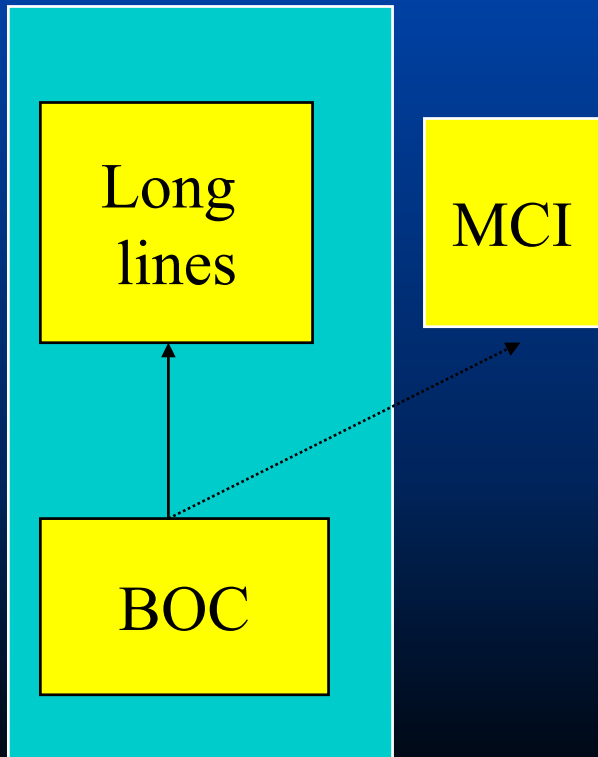
A Long-Run Perspective

- “In the Long Run, we’re all dead.”
 - John Maynard Keynes
 - A Tract on Monetary Reform

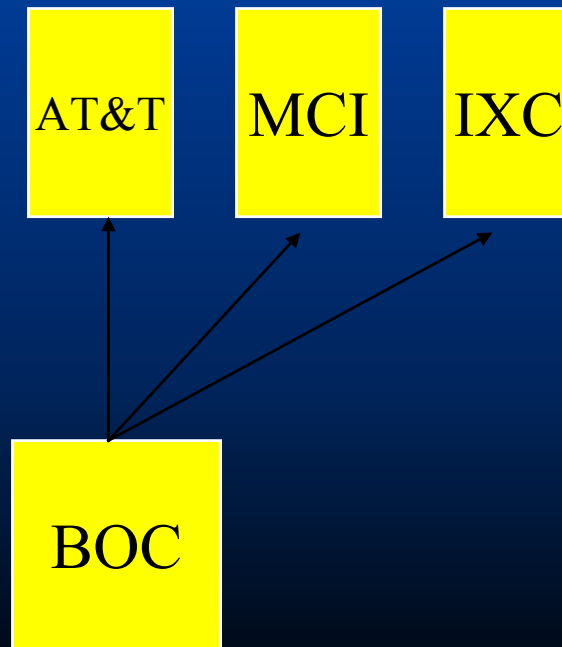
- “Economists set themselves too easy, too useless a task if in the tempestuous seasons they can only tell us that when the storm is past the ocean is flat again.”

The Vision of Post-Act Competition

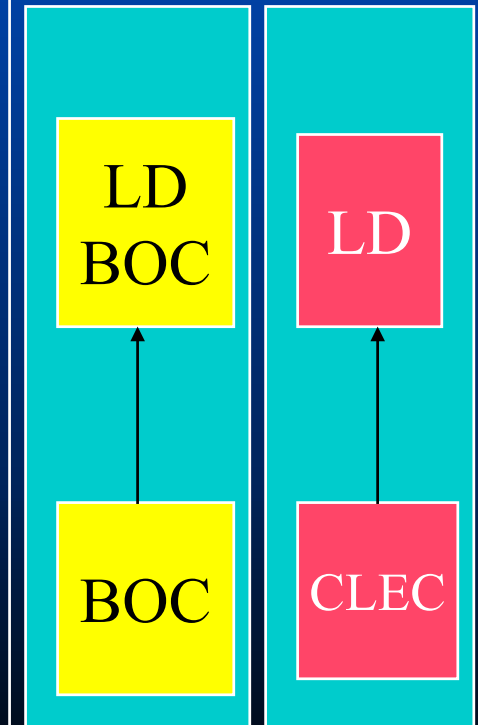
Pre-divestiture



Post-Divestiture



Post-Act



Long-Distance Telecommunications

■ Pre-divestiture

- Little or no consumer choice
- AT&T share – 90%
- One nationwide network
- Dialing disparity
- No demonstrated ability of competitors to expand
- Willingness to switch
- Coast-to-coast call -- \$.55/minute

■ 2002

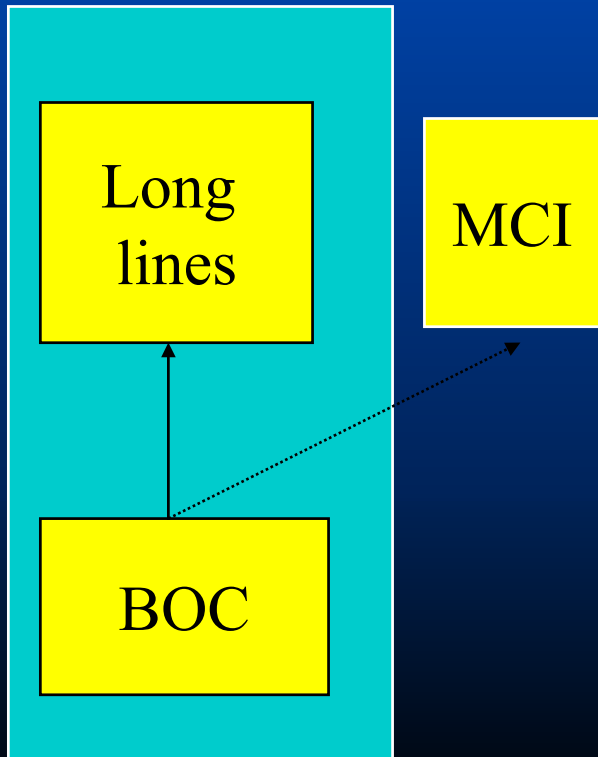
- Hundreds of LD firms (choice typically >25)
- AT&T Share – 40%
- Dialing parity
- Scores of Facilities-based competitors
- Demonstrated willingness to switch
- Coast-to-coast call ≤ \$.07/minute.

The Benefits of Long Distance Telecommunications Competition

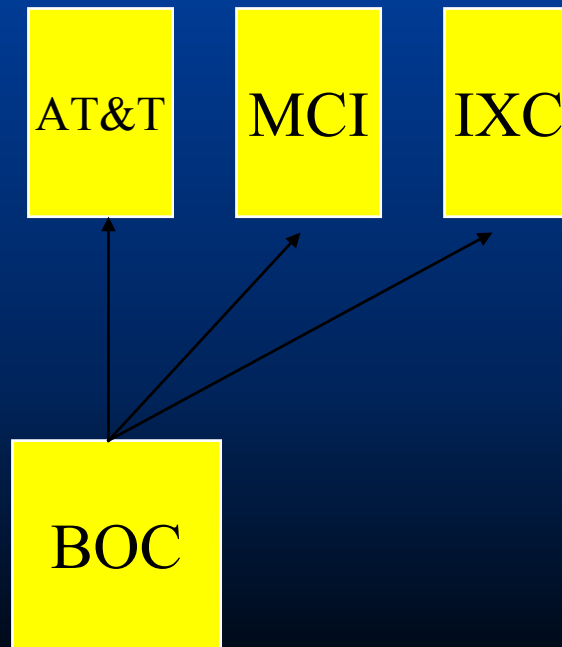
- The policies put in place in the telecommunications industry over the past two decades have dramatically increased competition in the long-distance industry and have created billions of dollars of consumer surplus.

The Vision of Post-Act Competition

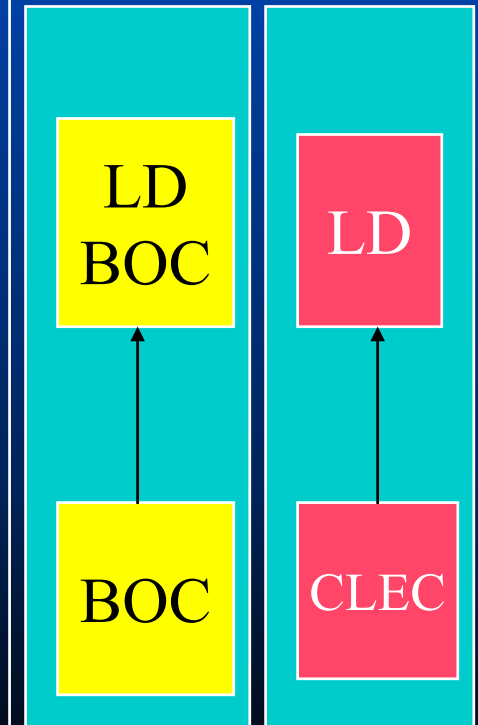
Pre-divestiture



Post-Divestiture



Post-Act



Guiding Economic Principles

- [1] *Entry by a monopolist into an effectively competitive market can lessen competition;*
- [2] *Entry by a competitor into a monopolized market unequivocally enhances competition; and*
- [3] *Entry by a competitor with no monopoly power into an effectively competitive market cannot harm competition.*

Opening Local Exchange Markets

- Unrestricted Resale
- Facilities-based entry
- Unbundled Network Elements (UNEs)
 - Rates “shall be based on cost”
 - “Nondiscriminatory”
 - “May include a reasonable profit”

Subsequent Developments in Local Exchange Markets

- Initially, a great deal of interest/entry
- Difficult battles over resale and UNE rates
- Entry met with ongoing “operational difficulties”
- Substantial operational and pricing issues remain

Bankrupt and Discontinued Telephony Entrants

@Link

2nd Century

Actel

Adelphi Business

Solutions

Adelphia Business

Solutions

Advanced Radio Telecom

Advanced Radio Telecom

American MetroComm

Ardent Communications

BroadRiver

Communications

Columbia

Telecommunications

ConnectSouth

Convergent

Communications

Covad Communications

Digital Broadband

Communications

e.spire Communications

Fairpoint

FutureOne

General Datacom

Global Crossing

GST

HarvardNet

ICG Communications

Jato

Maverix.net

McLeodUSA

MetStream

Mpower Communications

Net2000 Communications

NETtel

Network Asset Solution

Network Plus

NorthPoint

Communications

Omniplex

Onvoy

OpTel

Pathnet

Picus Communications

Prism Communication

Services

Rhythms NetConnections

Startec Global

Communications

Teligent

UBNetworks

Vectris

Vitts

Williams Communications

Group

Winstar

XO Communications

Yipes

Sabotaging Competition

- Virginia – Cavalier Telephone’s “premature disconnects”
- Pennsylvania – intra-company billing
- Bell South found to have “Provided preferential and discriminatory service to itself and to the detriment of other customers.”
- SBC fined for failure to provide non-discriminatory access (72 fines- 9/96-4/02)
- Bell South proposes Tariff to discount price of access based on access customer’s percentage growth rate

The Current Status of Local Exchange Competition

- Reduced number of RBOCs
- Some inroads, principally for high-end business customers
- ILECs still retain roughly 90% share of access lines nationally
- Many new entrants are “dead or dying”

	Provides Residential Local Exchange Service	
Provider	Potomac	Maryland
ACC Telecom Corp	No	No
Allegany Telecom	No	No
American Telephone Systems	No	No
Areacall	no	No
Aspect Telecommunications	No	No
AT&T	No	No
A-Tech Communications	No	No
ATI Communications	No	No
Bell Atlantic	YES	YES
Bellcore	No	No
Black World Telecommunication LLC	No	No
Boston Communications Group	No	No
Broadpoint Communications	No	No
Cable & Wireless USA	No	No
Chase Communications Corp	Not yet	Not yet
CLL Communications & Data	No	No
Complete Global Telecommunications	No	No
Connectiv Communications	No	No
Eclipse Telecommunications	No	No
Federal Telephone Co Inc	No	No
Frontier Communications (Global Crossing)	No	No
Global Telecom Services Ltd	No call back	No call back
Intermedia Communications Inc	No	No
International Teleconnect Corp	No	No
Interxet Communications	No	No
Kmc Telecom 3	No	No
Maryland Business Phone Company	No	No
MCI Worldcom	No	No
Mercedes Enterprizes	No	No
Metro Public Phone Co	No	No
Miller's Telephone Services Inc	No call back	No call back
NetInterests	No	No
New Age Technologies	No	No
OMC COMMUNICATIONS	No	No
OURS Telcom, Inc.	No call back	No call back
Potomac Telephone Company	No	No
Prime Business Solutions LLC	No call back	No call back
PRIMUS Telecommunications Group Inc.	No	No
Quest Communications Corp.	No	No
Sotas - S3net	No	No
Sprint	No	No
Tel & Tel Pay Phones, Inc.	No	No
TeleCom Net Works	No	No
Telephone Auditing Services	No	No
Teligent	No	No
Telnet, Inc.	No	No
Tourtel Inc.	No	No
Unisys	No	No
XO - formerly NEXTLINK	No	No

The Historical Role of Regulators

- Underlying Premise – Natural Monopoly
- Regulators' Role: Protect Consumers by Disabling Monopoly Power

The many meanings of “Deregulation”

- Deregulate price but not entry
 - Cable TV (1984)
- Deregulate entry but not price
 - Long Distance Telephone (1984-1995)
- Deregulate wholesale but not retail
 - California Electricity (2001)

Lessons from “Deregulation”

- Monopolies will not willingly cede their monopoly positions
- “Network” industries pose the biggest challenges for deregulation (trucking v. local telecommunications)
- Policies that implicitly deny access at one vertical stage in network industries will deny, delay and denigrate competition at all stages
- The path to deregulation is hard and if not done right will backlash (California?)

Lessons for Regulatory Policy

- Old Model of Regulation: Disabling monopoly power by protecting consumers from monopoly power and monopoly from entrants
- New Model of (DE)Regulation: Enabling competition by opening markets

Competition-Enabling Policies

- Policies to Promote Competition
 - Eliminate regulatory barriers to entry
 - » **Assure access**
 - » **Efficient Prices**
 - Identify areas of continued monopoly

- Policies to Protect Competition
 - Unbundling
 - Imputation
 - Unrestricted resale
 - Be alert to “sabotage”

A Man for All Seasons

- Sir Thomas More: Well, take me home.
- Boatman: From Richmond to Chelsea, a penny halfpenny...from Chelsea to Richmond, a penny halfpenny. From Richmond to Chelsea, it's a quiet float downstream. From Chelsea to Richmond, it's a hard pull upstream. And it's a penny halfpenny either way. Whoever makes the regulations doesn't row a boat.

Lessons Learned

Where do we go from Here?

- Will only get one bite of the competitive “apple”
- The path to facilities-based competition is through UNEs and resale
- No time to be timid (“Tough Love”)
- Competition must precede deregulation

The Impact of “Experts”

- Now that I’m here, we’ll turn the program around 360 degrees.
 - » Jason Kidd
 - » Dallas Mavericks’ No. 1 draft pick talking