



CASCADE POLICY INSTITUTE

# CASCADE COMMENTARY

February 2003 No. 2003-06

## Summary

The FCC will soon announce rule reforms for local telephone competition. Defenders of the *status quo* argue that loosening the rules would mean the death knell for competition. However, just released FCC statistics show that competition is growing, especially from cell phones. Reforms are needed to facilitate broadband and other new technological development.

**Word count: 709**

***“As shown in statistics just released by the FCC... the greatest competition has come from a source not contemplated in 1996: cell phones.”***

## Options increase in local phone markets

*By James Gattuso, J.D.*

Like a snail in a sprint, the Federal Communications Commission is rushing towards a decision on its local competition rules. FCC chairman Michael K. Powell announced at the end of January that he expects the Commission to meet its February 20 court deadline for its revised rules, in fact to beat it by a week.

That's welcome news. How much reform there will be is still a question mark. The mere prospect of action has sparked howls of protest from defenders of the regulatory *status quo*. Their message has been simple: competition to Qwest and other "Bell monopolies" is weak and uncertain, with challengers rocked by failure. Loosening the rules now would mean the death knell for the competition hoped for from 1996 reforms.

It's a nice clean storyline, and sure to be all over the media, no matter how timid the final FCC decision is. But, as shown in statistics just released by the FCC, competition hasn't been a failure. It's actually doing pretty well, although the greatest competition has come from a source not contemplated in 1996: cell phones.

Of course, this doesn't mean the last few years have been good to investors in competitive carriers. From a high of some \$86 billion, the capitalization of competitive providers, or "CLECs" was down to \$4 billion at last count, and the number of CLECs has diminished from some 300 to less than 100.

Despite these numbers, telecom competition is hardly on the rocks. In fact, according to the latest report by FCC number crunchers, there's more competition in local telephony than ever before. Nationally, they found that CLECs held 11.4 percent of all telephone access lines. That's a 10 percent increase over the beginning of 2002, and a 26 percent jump over a year earlier.

In Oregon, CLECs served over 154,000 customer lines, seven percent of the total, up a whopping 40 percent from the previous year. In all, Oregonians in half of the state's zip codes had the option of choosing their own telephone company.

These numbers, however, tell only part of the story, and not even the most important part: the phenomenal growth of competition from cell phones and other mobile wireless providers. Once a purely supplementary telephone service—too expensive to use regularly—the price of wireless phone service, combined with its functionality, is making it a prime substitute for old-fashioned wireline service. The number of subscribers is vast, 129 million, compared to 167 million lines served by traditional wireline carriers.

There are nearly 1.5 million wireless phone subscribers in Oregon, compared to about 2 million for Qwest and other traditional providers. Of course, not all of these use their wireless phone as a substitute, but an awful lot do. A smallish but significant number—6.5 million nationally—don't even have a wired phone. More telling, about one in six (18 percent) consider their wireless phone their primary phone.

Ironically, the competitive challenge of wireless was not contemplated by the authors of the 1996 act—that legislation barely referenced mobile wireless services at all. And the technology hardly figured in the seven-year drama of regulation and litigation over competition rules that have followed. Instead, after the initial assignment of spectrum, regulators in Washington, D.C. and Salem have largely left the industry alone. Despite, or perhaps because of, this neglect consumers have been rewarded with a competitive success story.

So, if things are going well, why should the commissioners change the current rules?

First, though wireless competition is largely facilities-based, the same cannot be said about the CLECs, which use their own local loops for less than 30 percent of their lines. In Oregon, the number is closer to 20 percent. Real, facilities-based, competition is the goal, and as several judges have hinted, it is discouraged by the current rules. Why build your own facilities when you can just lease someone else's, at prices set by regulators?

The second reason FCC commissioners should change the rules has nothing to do with voice competition: the damage done to broadband and other new technologies by discouraging investment could dwarf the consequences in the traditional telephone market. It is for these new technologies of the 21st century, rather than the old ones of the 20th, that reform is most needed.

---

*James L. Gattuso, J.D., is an adjunct scholar with Cascade Policy Institute, a Portland, Oregon think tank, and a research fellow in regulatory policy at the Heritage Foundation in Washington, DC.*

***“The second reason FCC commissioners should change the rules has nothing to do with voice competition: the damage done to broadband and other new technologies by discouraging investment could dwarf the consequences in the traditional telephone market.”***

### **Attention editors and producers**

*Cascade Commentaries* are provided for reprint in newspapers and other publications, with credit given to author(s) and Cascade. Contact Cascade to arrange print or broadcast interviews on this commentary topic. Electronic text files are available online at [www.cascadepolicy.org/cctext/](http://www.cascadepolicy.org/cctext/).

Please contact:

Kurt T. Weber  
Vice President  
Cascade Policy Institute  
813 SW Alder Street, Suite 450  
Portland, Oregon 97205

Phone: (503) 242-0900  
Fax: (503) 242-3822

[www.cascadepolicy.org](http://www.cascadepolicy.org)  
[kurt@cascadepolicy.org](mailto:kurt@cascadepolicy.org)