

# Keeping the communication revolution at bay.

*Why, after two years of telephone 'deregulation,' monopolies still tightly control your local service.*

by Michael S. Fredenburg

THEY'RE STUPID jerks, and they must be destroyed." These are the words that Robert Metcalfe, founder of 3Com, uses to describe local telephone monopolies like Pac Bell and its Texas-based parent, SBC Communications. Metcalfe is not alone in his exasperation. Roger McNamee, a well-known Silicon Valley investor, was recently quoted in the *Wall Street Journal* saying, "Our industry is driven by Moore's Law. Theirs is driven by Moron's Law — the morons who run and regulate America's telcos." Metcalfe and McNamee are part of growing chorus of voices calling for the dismantling of one of the last government sanctioned monopolies. What may have seemed like a good idea — indeed even an economic necessity — more than 100 years ago when modern utilities were being established, has become little more than government-approved inefficiency. To the high tech entrepreneurs creating new wealth and opportunity, the telephone monopolies represent one of the biggest roadblocks to their otherwise largely sunny future.

The Telecommunications Act of 1996 was supposed to clear these roadblocks, opening up local markets to competition. Local monopolies like SBC/Pac Bell would be allowed to shed many regulatory shackles and join the competitive world of long distance service. But first, they had to open their local service markets to competitors, much as AT&T had done with long distance when the original telephone monopoly was broken up. Two years after the new law was enacted, what are the results? Pac Bell has thrown up so many technical and economic roadblocks to potential competitors that it still controls most of the market in its local service area. Practically all of the more than 100 companies that wanted to provide local service to California consumers have now backed out.

The difficulty centers on the use of existing phone lines. As a legacy of pre-break-up days, millions of miles of them belong to the old monopolies, AT&T

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in the case of long distance and the Pac Bells of the world in the case of basic and local toll call service. Market competition and consumer choice requires either that competitors all construct and maintain their own lines, a ridiculously inefficient and unworkable idea, or that all competitors be able to use existing lines. What about the old monopolies' property rights to those lines? Their investment in creating these networks must be recognized; the lines cannot simply be seized from them. On the other hand, their ownership of them is a direct result of their having been granted monopoly status in the first place. They would not "own" them, would never have constructed them at all, without that unfair advantage. To balance the issue, then, owners of these lines receive a fee from other communications companies that use the lines to service their customers, but the lines' owners should not be permitted to continue to stave off competition by using these "access fees" not merely to recoup fair payment for use of the lines but, by setting exorbitant rates, to price would-be competitors out of the market before they even come in.

IN RECOGNITION of this problem, when AT&T was broken up in 1984, it was forced to offer its competitors 50 percent discounts off of its retail price for leasing its lines. But the California Public Utilities Commission (CPUC) hasn't followed this lead. Pac Bell is permitted to charge its competitors a line-lease rate only 12 to 17 percent below retail. The notion that companies could provide local phone service with only these margins to work with is ridiculous. Only when the CPUC brings down the wholesale price Pac Bell is charging will it be possible for other service providers to compete for the local service market. Further dampening potential competitors' enthusiasm is that the CPUC currently sets pricing for interim periods only, adding more uncertainty and making competing with Pac Bell even less attractive. Pac Bell also charges its competitors a one-time fee of nearly \$300 *per customer* to switch them over. This so-called "non-recurring" charge, coupled with competition-stifling lease line prices, have made entry into Pac Bell's local service market virtually impossible. And Pac Bell has dragged its feet in achieving order system compatibility with potential competitors. This means consumers

who wish to switch can be subject to long delays and actually be without service while paperwork is being processed. The CPUC, by allowing this situation to persist, has angered the high tech community.

It is in this context that Pac Bell recently petitioned the CPUC to be allowed to provide long distance service. In late February, the CPUC held a day of hearings to try to understand why local competition has stalled in California. More than a score of telephone entrepreneurs testified, offering a multitude of creative ideas on how to create wealth and opportunity and provide better service in the telephone industry. For the most part, they were direct competitors of each other. Interestingly, the one thing they all agreed on was that Pac Bell should not be allowed into the long distance market until it opened its local markets to competition. Those testifying represented every segment of the telephone industry, from large established companies like AT&T and MCI to small start-up firms. In short, these were not people afraid of competition. What they do fear is a telecommunications landscape dramatically changed for the worse if one company is allowed to enter the long distance fray unfairly equipped with a monopoly base of local service.

Local phone service monopolies have delayed the roll-out of new services and products, exacerbating, in the process, a growing deficit in phone capacity. The current bottlenecks in telecommunications technology could be alleviated by new copper wire technologies such as ADSL (Asynchronous Digital Subscriber line), DSL (Digital Subscriber Line), and ATM (Asynchronous Transfer Mode) which increases the data-carrying capacity of the existing installed base of copper wire telephone lines. This massive increase in capacity would allow new innovative telecommunications products to be offered to residential and business customers. But the Baby Bells, including Pac Bell, have dragged their feet. Without competition, they have little incentive to retool. Indeed, plain old telephone service is much the same today as when your grandfather placed a call. Capacity is up, as is the speed of connections, but once a connection is made you get essentially what your grandfather got. Only as the Baby Bells have had to compete with other carriers for local toll calls have we seen more types of products become available to telephone customers.

**C**ONTRAST THE Baby Bells' record of innovation and growth with that of the high tech/computer industry. The first micro-processor, the Intel 4004, was invented in 1971 and could process 400 instructions per second. A big step up was the IBM Personal Computer of 1981 that could sort 330,000 instructions a second.

Today, the average PC can handle 200 million instructions per second and Digital's newest experimental Alpha processor can handle some one billion instructions per second. In less than two decades, computers have gone from simple boxes with monochrome monitors to providers of telephony, multimedia, internet connectivity, etc. At the same time prices have plunged and consumers can buy a computer for less money that is many times more powerful and versatile than the more expensive computers of just a few years ago. What distinguishes the computer industry from the Baby Bells? Competition rather than monopoly. Pepperdine University Professor Robert Sexton, writing recently in *Investors Business Daily*, summed up the situation nicely: "Since competition hit the long-distance market ... prices have dropped almost 70 percent. With over 700 long distance providers competing aggressively for each customer, long distance prices have fallen dramatically as services have expanded." In the meantime, he wrote, "local rates have climbed 53 percent."

**B**UT IT gets worse. Consumers are not merely stuck with the *status quo*, but with deteriorating service. 1997 set records for complaints to the CPUC about SBC/Pac Bell local service, nearly tripling the previous year's total. Some customers had to wait six weeks for phone service. Would this happen if Pac Bell had to compete?

Pac Bell portrays itself as a friend of competition in its bid to enter the long distance market, bragging that competitors now offer more than 200,000 lines of local phone service. What Pac Bell doesn't mention is that it still controls more than 17 million lines: close to 99 percent of the market. By any economist's definition, that is a monopoly. When Pac Bell says its share of the local market is 44 percent, it is talking about toll calls — local long distance — not basic service. And it is quiet about how local long distance competition has brought business and consumers big savings — a result basic service competition would also bring.

The worlds of high technology and telecommunications are inextricably linked. And high tech's growth potential is enormous. Half the world's people have never made a single phone call — *that's* a huge potential market. Under the Telecommunications Act of 1996, the FCC will finally determine whether or not Pac Bell and its sister Baby Bells have opened up their markets to competition. As of now, the answer is plainly no. Unfortunately, the California Public Utilities Commission has so far been unable or unwilling to set pricing structures that will allow competition. Any FCC approval of Pac Bell entry into long distance should wait until CPUC corrects matters and competition takes root. DPR

# Enticing the Muses

The orphaned visions:  
The West's greatest art  
celebrates eternal truths —  
so why has conservatism lost the  
ability to inspire?

By James Bemis

*Hope and Memory have one daughter and her name  
is Art ....*

— W. B. Yeats

IT'S NOW axiomatic that American culture, including most artists, has hitched its allegiance to the left. In fact, conservatives have so conclusively accepted this reality that they do little thinking about why it is so. Thus, although winning political and economic battles, they are being completely routed in the far more important cultural war, which is where life in this country — in any country — is actually lived.

Look at high-circulation conservative publications and journals, the high water mark of the modern conservative movement. Feature articles are nearly always about economics or politics. Very practical, down to earth. If any creative artist is highlighted, it's usually an author — of books on economics or politics.

Not so the films of Hollywood. Stories of heroism against bigoted, reactionary forces fill screen after screen, along with parables of evil capitalists, shrewdly exploiting the poor and noble. Conservatives and the religious are typically portrayed as villains or buffoons; the rebellious and libertine as modern saints. Simplistic, I know, but don't laugh: it's all part of the mythology — the religion, if you will — of the left.

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And it's the key to the liberal's artistic dominance.

Myths — defined here not as fictitious events, but the tales, fables, and images that underlie and define a people's beliefs — are man's most important cultural element. Myths are symbols — evoking emotions, cultivating attachment and delivering anathema, revealing what a society loves, fears, and hates — as depicted in traditional art forms like stories, songs, and poetry handed down from generation to generation. Those who control a people's myths — that is, its artists — by nature also control their culture. Why, then, are today's artists so overwhelmingly drawn to the left? It is — a truth George Bush unwittingly stumbled upon — that “vision thing.”

The aim of the artist is to provoke a certain response from the viewer, reader, or listener to his created image. He attempts to present this image in such a way that audiences will feel the desired emotions and grasp a certain interpretation of the creation. Poetic imagination, the artistic impulse, reflects the stimulus of a vision — a philosophy or theology, if you will — about the nature of man. This vision of man must also necessarily make assumptions about man's relationship to the universe, and thus about God. “In the beginning, no God ...” is just as much a religious statement as “In the beginning, God ...” The artist's imagination, then, responds to an aesthetic stimulus, not a scientific one, based on a poetic image of man. And this is where conservatives begin to lose their way.

Liberals have made a religion — with worship, symbols, rituals, and saints — out of its modern poetic image: Enlightened Man. This image describes man