

12. Technology and Telecommunications

TEN years ago, President Bill Clinton signed the Telecommunications Act of 1996, comprehensively rewriting the nation's communications laws, and Americans were told they soon would be enjoying vastly increased competition and innovation in communications. Today, they enjoy those benefits, although the progress has had little to do with Washington. While lobbyists and regulators debated and litigated over provisions in the act that were meant to jump-start telephone competition through new regulations and mandates, Internet and wireless technologies—both virtually ignored by the act—flourished beyond all expectations. These services have also been highly competitive, not only providing competition in Internet and wireless markets, but also creating competition for traditional wired phone service. Given this competitive environment, policymakers should focus on decreasing regulation of telecommunication services while resisting calls for new regulation.

by *James L. Gattuso*

Notes

Recommendations

1. Roll back remaining monopoly-era regulations where telecommunications service is competitive. Many of the rules applied to telecommunications in the era of monopoly are unnecessary and even counterproductive in today's competitive era. For instance, regulation of the retail price of telephone service does not make sense where consumers can choose among numerous phone competitors, ranging from their cable TV providers to stand-alone Internet-based phone companies.

2. Avoid regulation of Internet service. As the Internet grows, pressure to impose regulations increases. Of particular concern are proposals to impose rules mandating that Internet carriers treat all transmissions equally. Known as "net neutrality" rules, such regulations are unnecessary in today's competitive market where cable firms, telephone firms, and others could stunt investment in and growth of Internet services.

3. Limit local video franchising regulation. New technologies have made new competition in cable TV possible. Using existing telephone lines, firms such as AT&T and Verizon are beginning to offer television

service to consumers. However, to provide nationwide service, these new competitors must be granted franchises from among some 8,000 local cable regulators around the country. The franchise requirements were written in an era of monopoly cable service and have no role in today's competitive world. The rules should be eliminated to open the way for more competition in cable television.

Facts and Figures

■ Regulated services such as standard wired telephone service have suffered while non-regulated services have flourished. In 2005, the number of wireless phone subscriptions reached 194 million. In contrast, less than 150 million standard wired telephone lines are in use, and that number is decreasing steadily. The total number of Americans to receive phone service from their cable company is projected to reach 22 million by 2009.

■ In 2005, 74 percent of Americans, including 94 percent of computer users, used the Internet. Close to half of all on-line households use broadband connections.

■ The deployment of near-universal broadband Internet connections could create annual benefits for the U.S. economy of more than \$400 billion a year.

■ Cable firms served approximately 60 percent of broadband subscribers in 2005; most of the rest were served by telecommunications (telephone) companies. Satellite, fixed wireless, and broadband-over-power-line technologies also compete for customers.

■ Additional competition in video services could lower cable bills by some 15 percent, saving U.S. consumers some \$5 billion per year.

This chapter can be read online at issues2006.org/technology.

Notes

Additional Reading

James L. Gattuso, “Choice and Competition: Ten Years Later, the Battle Moves to Cable TV,” Heritage Foundation Commentary, February 23, 2006, at www.heritage.org/Press/Commentary/ed022306b.cfm.

James L. Gattuso, “Parents, Pricing, and TV Programming: The Competition Option,” Heritage Foundation *WebMemo* No. 949, December 21, 2005, at www.heritage.org/Research/Regulation/wm949.cfm.

James L. Gattuso, “House Telecom Rewrite Needs a Rewrite,” Heritage Foundation *WebMemo* No. 860, September 23, 2005, at www.heritage.org/Research/Regulation/wm860.cfm.

James L. Gattuso, “Telecom Competition Rules: Déjà Vu All Over Again?” Heritage Foundation *WebMemo* No. 621, December 14, 2004, at www.heritage.org/Research/Regulation/wm621.cfm.

James L. Gattuso, John M. Kneuer, David McIntosh, Harold Furchtgott-Roth, and Peter Pitsch, “Broadband by 2007: A Look at the President’s Internet Initiative,” Heritage Foundation *Lecture* No. 852, October 26, 2004, at www.heritage.org/Research/Regulation/hl852.cfm.