

24. Telecommunications

The high-technology and information revolution that has accelerated over the past 15 years is a change as profound as the transition of primitive man from hunting to agriculture and as dynamic as the Industrial Revolution. The production, transmission, and use of information is of growing importance to the American economy. Yet the telecommunications regulatory structure remains essentially the same as it was earlier in this century, and it is the most significant barrier to progress in creating an efficient, flexible, and integrated communications system.

The success of the private sector in producing personal computers, software, and user networks is solid evidence that a completely deregulated telecommunications sector can best serve the American people. To ensure that the country enters the 21st century with an information superhighway commensurate with the next millennium, policymakers should

- **remove all barriers to the use of the broadcast spectrum and move quickly to complete privatization;**
- **allow all private companies, including the regional Bell companies, to provide any kind of goods or services they wish for consumers;**
- **remove all other mandates and restrictions currently on service providers;**
- **extend the First Amendment to all communications media.**

Three-Part Communications

Communications in America traditionally have been divided into three parts, each with its own regulatory rules or oversight agencies. The first medium, the printed word, is nearly free of government regulations. Because the First Amendment to the U.S. Constitution guarantees freedom of speech to the printed word, there are no government barriers to anyone who wishes to write or publish newspapers or books. Newspapers and publishing companies are privately owned.

The second communications medium is the so-called common carriers transmitting over wire, such as telephone and cable TV. Those carriers have been regulated like public utilities. Telephone communications, both local and long distance, were handled by a government-protected monopoly, American Telephone and Telegraph, until its breakup by a federal court in 1982. AT&T was required to provide service to all who desired it on an equal basis. Service rates were subject to government review.

The third medium, the electromagnetic broadcast spectrum, traditionally used for radio and television, has been treated as public property. The Federal Communications Commission was charged with licensing certain frequencies to certain broadcasters in certain regions of the country. The argument for public ownership was that the spectrum was a limited, scarce commodity. Thus, to prevent monopoly use, the government owned the spectrum the way it owned the roads. The content of programs had to serve the public interest as defined by the FCC. Speech on radio and television broadcasts was not protected as First Amendment free speech. Content that could be printed could be banned from broadcasts. Further, until 1987, broadcasts were subject to the fairness doctrine that required "balanced coverage" of controversial issues.

Technology Explosion and Regulatory Breakdown

In the 1980s the tripartite division of the media began to break down. The two main reasons were the 1982 breakup of AT&T and the advent of new technology and accompanying services.

Starting in 1971 the FCC began opening the long-distance telephone market to competition by allowing MCI, and later other companies, to provide services on the microwave part of the spectrum, which is not used by TV and radio. But the biggest change came in 1982 when Judge Harold Greene ruled that the AT&T monopoly violated antitrust statutes. The Modification of Final Judgment set forth the terms that now govern much of telephone communications. Under the modification, AT&T had to abandon provision of local services, spinning off those operations to seven regional "baby Bell" companies. Those local Bells were banned from providing long-distance services, from manufacturing or providing telephone equipment, and from providing other information services.

The 1980s also brought expanded use and constant improvement of the microprocessor or computer chip, which is used in new consumer products such as videocassette recorders, fax machines, and compact disc players. But the most notable use has been in personal computers (PCs).

Cable television was another development of the 1980s. Homes that had been wired to receive only telephone service were now wired to receive cable television **broadcasts**, with the capacity for hundreds of stations. Local governments tended to grant monopolies to single enterprises rather than national cable providers.

The use of highly efficient fiber optic cables in place of copper and the ability to compress signals for efficient spectrum transmissions also increased information delivery capacity. The introduction of small satellite dishes will provide increased future access to telecommunications services for consumers and competition for cable and broadcast companies.

Spontaneous Integration

As new technologies and services were introduced and developed, new, innovative, integrated uses and systems sprang up. The traditional three-part division of communications media began to break down.

No longer are individuals confined to reading only words printed in ink on paper, speaking with others on a phone hooked to a wire, or enjoying a TV or radio show at a set receiving a broadcast a signal. With new technology, a written news story can be sent over phone lines to be read on a computer monitor or printed out on a fax machine. Television can be transmitted over copper phone lines or fiber optic cables. Phone calls are routinely transmitted via the broadcast spectrum.

Modems that connected computer terminals to other computers or databases soon allowed faxes to be sent from one PC to another. Now those connections allow a PC to answer a telephone and record messages. Video teleconferencing will soon be a reality. The convergence of the media has changed the face of the communications landscape.

Computer user networks and bulletin boards now flourish. CD-ROMs store bookshelves' worth of information on five-inch plastic discs. Integrated computer-video, telephone-television interactive information systems are here and soon could be found in most homes and offices.

More promising for America's economic future is the use of those new technologies and networks by entrepreneurs and industries. Increased computer capacities have already allowed Hollywood special effects artists to produce movie dinosaurs that seem to bring to life a species dead for 65 million years and allowed Boeing to design and test its new 777 twin-engine passenger plane entirely by computer.

Deliberate Divisions

The regulatory system simply has not kept pace with rapid technological changes—nor could it have been expected to—and is the principal obstacle to change today. Over the past five years, progress has been made in freeing telecommunications, but the antiquated regulatory system from earlier in this century still exists.

For example, parts of the broadcast spectrum have opened for other users, principally for mobile cellular phones. Changes were made by the FCC allow businesses to acquire certain parts of the spectrum for nontraditional uses. A lottery approach was introduced in 1982, and last year the FCC agreed to allow use of those parts of the spectrum to be auctioned off. That will allow cellular phone companies to compete with local telephone monopolies.

But major parts of the spectrum still are reserved for radio and TV broadcasts, even though that is not necessarily their most economically desirable use. And of course, broadcasters still must kowtow to the FCC for their licenses and renewals.

Regulation of cable TV has proved a classic example of the government's compounding one failed regulation with another. The baby Bells, which have wires going into nearly every home, are in an excellent position to compete with local cable TV providers, yet they had been prohibited from doing so. Not surprisingly, that anti-competitive arrangement led to higher prices, which, in turn, led Congress to pass the Cable Act of 1992, which set up price controls on various services. Congress completely ignored the option of freeing the baby Bells to compete with cable companies. The result in many cases was higher prices, poorer service, dropped channels, and a slowing of the expansion of cable into homes not currently served. Recognizing the failure of the 1992 act, the FCC plans to allow some minimal deregulation.

Needed: A Wave of Deregulation

It is clear that the market has outstripped the regulators and that the halfway reforms offered by Congress, the administration, and the FCC do not go far enough. Telecommunications quite simply should be turned over to the free market that has created the information revolution. Four reforms should be undertaken.

Remove Barriers

The best use of the electromagnetic spectrum should be determined by the market, not by bureaucrats. The natural monopoly argument that

justified government ownership and control has been shown to be invalid by the proliferation of other media of communications. Even before the advent of cable TV, most channels on a typical television set capable of UHF and VHF reception were empty. The entire spectrum should be thrown open to auction to any user for any use.

Free Provision of Services

There is no longer a clear distinction between unique providers of unique services restricted to the use of unique media. The baby Bells should be allowed to provide cable TV or long-distance phone service. Restrictions on AT&T should be lifted. Cable companies should be allowed to provide phone services.

Remove Mandates and Restrictions

The cable TV companies, for example, still suffer under the price and service restrictions of the Cable Act of 1992. The act's repeal would put cable back on its dynamic growth path. The federal government still oversees phone rates. It also mandates certain forms of cross-subsidization. Those controls certainly should be abandoned.

As important, the federal government should avoid placing new regulations on telecommunications service providers. Vice President Gore has called for "guaranteed access" to services, meaning that providers will be forced to furnish free services to certain customers. In fact, individuals already have guaranteed access to any service currently on the market—as long as they pay for it. The main barriers to access are remaining government restrictions. Creating a telecommunications entitlement will bring the same results to the development of information services that welfare entitlement has brought to the development of America's inner cities.

Extend the First Amendment

The more the media converge, the greater the potential for the abuse of civil liberties as the federal government attempts to apply the restrictions on broadcast communications to other media. The economic problems created in telecommunications by government regulators will probably be mirrored in further restrictions on free speech if regulators extend their reach to an integrated telecommunications system. The First Amendment, which covers speech and the printed word, the only forms of communication in existence at the founding of the country, should be extended to all new forms of communication.

Conclusion

The telecommunications and high-tech revolutions have exposed the inadequacies of the current federal regulatory system. The principal barrier to even more rapid change is the attempt by policymakers to preserve a government role in the system. The best way to ensure that America enters the 21st century with a 21st-century telecommunications system would be to free entrepreneurs so that they can bring to telecommunication the same creativity and dynamism that they have brought to the PC and software sector.

Suggested Readings

- Gasman, Lawrence. *Telecompetition: The Free Market Road to the Information Highway*. Washington: Cato Institute, 1994.
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- Thierer, Adam. "A Policy Maker's Guide to Deregulating Telecommunications. Part I: The Open Access Solution." Heritage Foundation Talking Points paper, December 13, 1994.
- Huber, Peter W. *Orwell's Revenge*. New York: Free Press, 1994.

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