

FOR IMMEDIATE RELEASE

NMRC REPORT: IN NEW YEAR, TELECOM MARKET NEEDS NEW RULES

Rapid Technological Changes Require Flexible, Forward-looking Policies

WASHINGTON, D.C. // **January 6, 2004** // Jumpstarting the ailing telecom industry requires government regulators to develop policies that allow telecom companies to focus on innovation, unfettered competition and consumer benefits, according to experts presenting their views in a new report released today by the **New Millennium Research Council** (NMRC). The report finds that current pricing policies inhibit network investment, and that a deregulated telecom sector will benefit consumers, create jobs, and provide a much-needed boost to the economy.

The new NMRC report, *Directions for the Next New Age of Telecom Regulation*, explores how the constant change of new technologies and services requires regulators to ‘leap frog’ away from current outdated regulations simply to keep up with advancements in the telecom industry. Current regulatory paradigms are seen as facilitating the industry’s economic stagnation and curtailing investment in the nation’s broadband infrastructure. To unleash head-to-head competition that will introduce new services that consumers want, the authors recommend that government regulators move toward policies that allow telecom companies to move away from micromanagement of all aspects of the telecom industry.

The report’s authors include James Alleman, professor at the College of Engineering and Applied Science, University of Colorado – Boulder; Sonia Arrison, director of the Center for Technology Studies, Pacific Research Institute; Diane Katz, director, science, environment and technology policy, Mackinac Center for Public Policy; and, Steven Wildman, professor of telecommunications studies, James B. Quello Center for Media Studies, Michigan State University.

The authors conclude that telecom is a dynamic industry requiring dynamic regulation.

“No government policy, no matter how well-intentioned, will create a dynamic telecommunications market,” says **Diane Katz**. “On the contrary, technological progress feeds on freedom and truly thrives only in the absence of centralized authority.”

Increasingly, products and services are converging toward packet-based technologies at a rapid pace while legacy voice telephony regulations continue to impose delays and unnecessary costs on innovation creating uncertainty, inhibiting risk-taking, and slowing the introduction of new products and services.

“Any type of government-mandated pricing plan suffers from what Friedrich Hayek called the ‘fatal conceit’ - the idea that a few very informed people could order societal affairs in ways that would somehow yield results superior to those that spring from the spontaneous order of a free society,” says **Sonia Arrison**. “Regulators should keep their hands off new technologies unless it becomes clear that there are problems not addressed by the marketplace.”

The authors also find that current pricing policies inhibit investment.

Reliance on static policies and pricing formulas, such as total element long-run incremental cost (TELRIC) for unbundled network elements (UNEs), do not create truly competitive markets. **James Alleman**, says TELRIC “employs a static methodology, based on hypothetical, paper-based engineering systems designed with the ‘best-available’ technology.” TELRIC doesn’t account for growth in demand, the substitution of labor for capital, or for state-of-the-art valuation methods, he adds.

The authors submit that regulators must not micromanage all aspects of telecom competition, and that deregulation will benefit consumers.

“Under the ‘expert agency’ regulation that transpired over the past 100 years, many of the policies and rules developed were anticipatory in nature and designed to either prevent or correct market failures by controlling the terms and conditions under which regulated firms could conduct business,” says **Steven Wildman**. This system of regulation “is undermined by the nature and pace of change we are now experiencing in both technologies and services.”

Current regulatory policies for broadband are hurting consumers and slowing innovation, according to Ms. Katz of the Mackinac Center. “Broadband ranks among the biggest losers,” she says. “Local telephone service providers are too strapped for cash to invest in fiber deployment.”

“If regulators really want to make sure that consumers reap the full benefits of a competitive marketplace, they should rein in their desire to meddle and let the market work,” says Ms. Arrison of Pacific Research Institute. “This means allowing companies to provide high-speed Internet services unfettered by draconian federal or state regulations. It means no subsidies to competitors, no price constraints or controls, and a withdrawal from the micromanagement of telecommunications. If regulators can do this, consumers will be the true winners,” she says.

ABOUT NMRC

Established in 1999, the non-profit New Millennium Research Council (NMRC) is composed of a network of policy experts who seek to develop workable, real-world solutions to the issues and challenges confronting policy makers. Its work has focused primarily in the fields of telecommunications and technology. For more information on the NMRC please visit: <http://www.newmillenniumresearch.org>

CONTACT: Edward Rovetto, for NMRC, (202) 263-2922 or erovetto@newmillenniumresearch.org.

EDITOR’S NOTE: The full report is available at <http://www.newmillenniumresearch.org>