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# Reflections on the Sixtieth Anniversary of the Communications Act

**Robert E. Allen\***

This is the sixtieth year since the adoption of the Communications Act of 1934 and the tenth year since AT&T's divestiture of its local telephone operating companies. It is a good time to reflect on all this country has achieved in the field of communications as a result of enlightened, procompetitive policymaking. It is also timely to look ahead and consider the value of bringing the procompetitive policies of the past to bear on the remaining vestige of monopoly power in the American telecommunications landscape, the local exchange, as well as the benefits of fostering competition in the international arena.

During the past twenty-five years, the evolving telecommunications policy in this country has been decidedly procompetitive, and appropriately so. Competitive forces have spurred the delivery of the most advanced voice, data, and multimedia services to America's citizens in the shortest time frame, without burdening taxpayers or consumers with unnecessary costs. The competitive market structure attracts private investment and entrepreneurial activity. It has led to economic growth and job creation. There is no question that the nation as a whole has benefited from this strategy.

In particular, the nation's experience with competition in the communications equipment and long-distance markets is a testament to the benefits of procompetitive policies. Competition came first and most easily to the customer premises equipment market. Once the Federal Communications Commission (FCC or Commission) determined two decades ago that other manufacturers' terminal equipment should be allowed to be used with the Bell System network, the options available to customers increased dramatically. Instead of having a single, expensive, black rotary phone as

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\* Chairman and CEO, AT&T Corporation.

in the past, homes today routinely have several phones (both wired and cordless), an answering machine, a computer with a modem, and maybe even a fax or cellular phone—all made by a variety of manufacturers. Government no longer regulates the price of consumer equipment or the terms of its sales. Instead, its principal involvement is its participation with industry to develop technical standards.

The U.S. telecommunications network equipment business has also become fully competitive. Before divestiture, the Bell Operating Companies purchased their network equipment from their Bell System manufacturing affiliate. But once divestiture severed that captive relationship, new suppliers with fresh ideas entered the marketplace. The Bell companies now have the ability and the incentive to establish multiple sources of supply, which they have done, and to buy their equipment from whichever manufacturers offer the best combination of features and price.

Since divestiture, there has been extraordinary competition in the long-distance business as well, where carriers have introduced a plethora of new services, and prices have plummeted. Hundreds of new carriers have begun providing competing long-distance services. A dozen different carriers have put thousands of miles of fiber-optic cable into service across the country. Long-distance networks have, with greater speed and urgency, deployed advanced technologies.

The spur of competition has made AT&T a stronger company; it is now more efficient, more innovative, quicker to market, and more responsive to its customers. Because of the competitive marketplace, long-distance carriers and equipment manufacturers have invested heavily and successfully in a wealth of new technologies and services. Competitive market pressures assure that these trends will continue. The time is long past due for government to eliminate all remaining unnecessary regulation in these competitive markets, so that competition can continue to flourish unhindered by artificial regulatory constraints.

But competition is not yet universal. Customers everywhere in the United States have only one option for local telephone service: they must use the local telephone company that serves their area. Through the local telephone network, customers make all their local calls (local service) and, in over 99 percent of the cases, that same local network connects them to the long-distance carrier of their choosing (local access). And although it is otherwise a time of great industry ferment, the local monopoly remains rock solid. AT&T and its long-distance competitors know this firsthand, for they are the largest captive customers. In order to gain the access they need to their domestic customers, AT&T pays the local telephone monopolies

about forty cents out of every dollar they collect from their long-distance customers.

Until recently, interest in the potential for local competition was evident only in the industry's far reaches—where entrepreneurial firms such as MFS and Teleport have labored. But now there seems to be a serious collective interest on the part of federal and state policymakers and on the part of the industry to find out if, given the right set of regulatory safeguards and incentives, local competition has the potential to develop. AT&T supports these efforts and has recently asked the Illinois Commerce Commission to adopt the regulatory conditions required to test the viability of competition for local services in Illinois Bell's (now Ameritech's) serving areas. AT&T has also supported congressional efforts to implement these principles nationally.

In the local exchange market in particular, the government needs to establish the necessary and interrelated conditions required to allow genuine competition to develop to the fullest extent possible. These conditions require: elimination of government rules that distort market dynamics and undermine the potential for competition; comprehensive, nondiscriminatory, and cost-based interconnection with, and unrestricted use of, all fundamental components of the local exchange carrier network; and termination of local exchange carrier control over telephone numbers. This last requirement includes allowing local telephone customers to change local service providers without having to change telephone numbers, and to access the services of all providers in the same way that they access the incumbent provider's services, without the need for access codes or cumbersome dialing protocols.

If the collective efforts of policymakers and the industry are successful, and if true local exchange competition can be established, the benefits are potentially enormous. Foremost, competition would assure—as it has in other telecommunications markets—the most effective and efficient deployment of new products, services, and technologies, in turn offering users a wider range of choice at lower cost. It would lead to the acceleration of infrastructure development, the growth of existing firms, and the entry of new firms, producing significant new employment. All Americans would benefit as the capabilities of the nation's communications networks expanded and the cost of using them dropped.

Effective local competition would also permit the Bell companies to provide long-distance service, something they have sought even while they retain monopoly control of essential local exchange facilities. Premature entry by the Bell companies would wreak havoc on the adjacent long-distance business, which depends entirely on the Bell companies' essential

local exchange facilities for its operation. Only effective competition in local telephone markets could assure that the Bell companies would be unable to improperly leverage their local exchange operations into the long-distance market.

Despite the lack of customer choice, the Bell companies have argued that vigorous local competition exists, or will soon exist. They claim that alternative access providers, cable networks, and wireless services, either alone or in combination, are or soon will be effective alternatives to the local exchanges. These technologies, however, are not yet as available and affordable as alternative local telephone technologies, and it is not clear when, if ever, they will be.

The shift to local competition will take time, if it happens at all. It would be to the Bell companies' great advantage, and to the country's great disadvantage, if they were to enter the long-distance market with their essential local monopolies intact. Such premature entry would foreclose or impede competition in the long-distance industry and would dim the prospect of any meaningful competition in the local exchange. Government need not, and should not, let this happen.

In pursuit of local competition, the government also need not impair one of the crowning achievements of American telecommunications—universal service. Basic telephone service and access to network capabilities should be available to all Americans. Since enactment of the Communications Act, universal service has been supported through a system of subsidies that resulted in the provision of basic local service at rates below cost. This was made possible by charging higher rates for other services, such as long-distance. This system continues in effect today, with local service rates being subsidized by above-cost access charges paid by long-distance companies and their customers. These "implicit" subsidies have been supplemented by other "explicit" subsidies, such as the Universal Service Fund and Lifeline Assistance program, which are intended to provide affordable basic local service in high cost areas and assistance to needy individuals.

The current system has skewed competition and is in need of substantial reform. The goal of lawmakers, regulators, and industry participants should be to develop a system that maintains and enhances universal service, while eliminating the existing distortions and inequities. In particular, a new universal service funding mechanism should be competitively neutral and should maximize customer choice. This will occur if (1) funds are collected, disbursed, and otherwise administered by the FCC, the states, or some other disinterested third party; (2) financial responsibility for providing the funding is spread broadly and on a

competitively neutral basis; and (3) any subsidy allows each consumer, so far as is practicable, to choose among competing carriers wherever that choice exists.

In fostering competition on our own shores, the government should also be mindful of whether foreign markets are open to entry by American firms. Closed foreign markets deny American consumers competitive choices in the global market. Participation in American markets by firms with protected home markets poses risks to competition in the American marketplace. American regulatory authorities and policymakers should be cautious about allowing entry by foreign firms into the American market until there are comparable rights for American firms seeking access to foreign markets. They also should insist that foreign carriers participating in the American market provide the kinds of foreign interconnection that go with true competition and offer cost-based, nondiscriminatory accounting rates to all U.S. carriers.

Competition in the equipment and long-distance markets has brought tremendous benefits to consumers and the American economy. In order to maximize consumer benefits, the government should now take the next logical step and foster competition throughout the telecommunications industry. In particular, conditions should be put in place to test the potential for competition in the local exchange, and foreign carriers seeking to participate in American markets should be required to demonstrate that their home markets are open to competition.

