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Hanging Up on Regulation: The Case for Telecommunications Reform

The Honorable John Ensign

It is good to be here because this bill is a perfect fit with your philosophy of getting government out of the way where possible and allowing market forces and consumer choice to drive competition, not government regulators. The Broadband Investment and Consumer Choice Act is about bringing free-market forces to bear so consumers can choose the best products at the best prices.

It is a whole new world in communications. Advances in technology have left the 1996 Telecommunications Act behind. This legislation will transition us from a world of stifling government-managed competition to a consumer-controlled marketplace. This bill impacts the services that are important to American consumers: voice services, video services, wireless services, and broadband service. We put in place federal rules that encourage market forces to work and that allow consumers to choose the best products and services at the best prices.

Global Competitiveness

Changes in technology necessitate that we update these rules if America is going to be competitive in the face of global competition. Companies like Skype out of the Netherlands (and now with e-Bay) did not exist a few short years ago. Skype has signed up 52 million customers globally and 10 million in the U.S. alone. This is significant because this is a service that is siphoning traffic away from our own domestic carriers. Services like Skype that are just applications and oftentimes located overseas cannot be taxed, regulat-

Talking Points

- Technology is bringing consumers new options for how they communicate: wireless, telephone companies, satellite, broadband over power lines, and cable modem. Cable companies are now offering voice, phone companies are launching video service, wireless companies are doing broadband, and phone calls can be made over the Internet.
- A recent Government Accountability Office study tells us that prices drop an average of 15 percent with a new competitor to cable, allowing cable to quickly and effectively come to the table.
- Despite a variety of options for consumers, however, we still regulate based on ancient history. For instance, we regulate on how a company grew up instead of recognizing the realities of the marketplace and regulating similar services in similar ways.

This paper, in its entirety, can be found at: *www.heritage.org/research/regulation/hl932.cfm*

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ed, and controlled by the United States government. Make no mistake about it: Even if you tried to regulate it, other companies would pop up to fill the void.

Take the music industry as an example. When Napster was shut down, there were numerous other peer-to-peer file-sharing programs that popped up. This underscores the need for us to update our laws so our domestic carriers that employ U.S. workers can compete in this world of global telecommunications.

The investment in broadband this bill will bring is critical to our competitiveness. In this global economy, Americans need the resources to compete, and broadband is an essential tool that will allow our workers to compete with anyone in the world.

Just recently, the latest numbers came out that 700,000 Americans now rely on e-Bay–based businesses for their primary income. These are new jobs for an information age. Americans must have access to information and ideas and must have an ability to communicate if they are going to be successful in this information economy.

Benefits for Our Country

Consider for a minute the amount of investment we could expect if we can update our laws: an estimated $634 billion GDP growth that will result in 1.2 million new jobs. We need to get the investment dollars flowing. Wall Street likes clear, understandable rules that minimize litigation and uncertainty. Upon introduction of my bill, Wall Street rewarded the telecom sector with a $22 billion increase in market cap.

This was driven primarily by the equipment manufacturers because Wall Street agrees that this bill will result in investment in new broadband infrastructure. The need for investment in broadband could not be more pressing.

Consider the recent articles on the United States' broadband penetration having fallen to 16th place compared to the rest of the world. That is not good enough for the country that gave birth to the Internet and needs the Internet if our workers are going to be competitive as we move from a manufacturing economy to an information age.

New Rules for a Competitive Marketplace

Technology is bringing consumers new options every day for how they communicate. Consider the various ways that different consumers get access to broadband: wireless, telephone companies, satellite, broadband over power lines, and cable modem. This is exciting, because companies are getting into each other's traditional lines of business and competing for consumers' dollars. For example, cable companies are now offering voice, phone companies are launching video service, wireless companies are doing broadband, and phone calls can be made over the Internet.

Despite a variety of options for consumers, however, we still regulate based on ancient history. For instance, we regulate on how a company grew up instead of recognizing the realities of the marketplace and regulating similar services in similar ways.

This bill addresses this concern by implementing a set of federal consumer protection measures to ensure that consumers get high-quality service from all providers. By providing a federal set of standards that states can enforce, we will allow national carriers to invest and compete without a patchwork quilt of regulations.

But there will still be a local point of contact in each state if consumers have problems, and if we update our communications laws to encourage investment in this kind of competition, consumers will benefit from more choices at better prices.

The Wireless Industry as a Model

The wireless industry is a great example of what can happen if we trust consumers to choose winners and losers in the marketplace. For the last decade, the wireless industry has been allowed to grow and innovate with very minimal regulation. There are very dynamic pricing plans that we see change for the benefit of consumers in the Sunday papers each week.

For example, Sprint now will let you share 800 anytime minutes on two different phones for $35 a month. What you see here is that in the absence of heavy-handed government regulation or government rate setting, consumers are benefiting from innovation and prices continue to fall.

Look at the innovation in cell phones and the range of features and options for consumers such as camera phones and streaming video. I am able to watch television programming on my RAZR phone. This bill will bring this same dynamic, competitive environment to the rest of the communications sector.

More Choices for Consumers in Video

This bill will speed the arrival of a fourth provider to the video market. We will have competition between cable companies, EchoStar, DirecTV, and now the phone companies providing video, not to mention video over the Internet. Consumers will benefit from more video choices, better content, more innovation, and competitive forces on pricing.

A recent Government Accountability Office study tells us that prices drop an average of 15 percent with a new competitor to cable, allowing cable to quickly and effectively come to the table. In fact, in Keller, Texas, where Verizon began offering IPTV, consumers saw the cable companies cut rates significantly. We streamline the entry of a new competitor into the video market, and these new federal rules for video are for both phone and cable companies.

Consumers will see the benefits of video competition sooner because we eliminate the requirement of negotiating lengthy contracts with 33,000 local cable franchise authorities. Local governments have expressed some concerns about loss of revenues, but we do have language for up to 5 percent franchise fees for all video providers. Local governments need to realize that every customer that leaves satellite and switches to IPTV is new revenue for local government because, as satellite customers, they didn't have to pay the 5 percent.

This legislation will help bring consumers new innovative video services more quickly and provide a competitive pricing pressure on cable.

—*The Honorable John Ensign represents the State of Nevada in the U.S. Senate. He serves as chairman of the Subcommittee on Readiness and Management Support of the Armed Services Committee, the Subcommittee on Technology, Innovation and Competitiveness of the Commerce Committee, and the Republican High Tech Task Force and is also vice chairman of the Republican Steering Committee.*