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Telecommunications Policy Choices & Entrepreneurs

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It's hardly a revelation that America's small business and entrepreneurial sector has enthusiastically embraced new and breakthrough innovations that relate to telecommunications services. Indeed, in a "flat world" that gets flatter by the day, business survival increasingly hinges on getting things done faster, more creatively and with greater efficiency – and all at lower costs, of course.

It is not without coincidence that government's pro-market approach over the past decade with respect to the Internet and telecommunications policy has led to extraordinary technological gains. During this period, billions of dollars in new investment have yielded a faster, more robust Internet; more innovative services and choices for entrepreneurs; mobile tools that enable the use of this advanced technology; ground-breaking hardware and software that leverages the power and use of the Internet and telecommunications services; and lower costs for such products and services. The collective output of all this innovation has benefited U.S. firms with respect to increased productivity and creative opportunities for lowering operating costs.

With respect to the direction of telecommunications policy for the future, there are two paths to review to help demonstrate which one yields the best results for consumers, innovation, entrepreneurs and the economy. As detailed below, when government severely regulated the industry, progress and innovation came in fits and starts. The current period -- marked by a more market-oriented, deregulatory approach -- has produced amazing results that are literally changing our world and vastly improving people's lives.

Particularly with regards to this very dynamic and promising sector, it is critical that policy stay consistent in order to reap greater gains from those already made. An arbitrary and hasty U-Turn on the public policy front would very quickly chill investment in an area where we have just begun to skim the surface of possibilities and innovation.

A Primer on the History of Telecommunications Regulation

On its website, the Federal Communications Commission offers the following description of its mission and role in the economy:

> "Most people know that if they watch television the Federal Communications Commission (FCC) is part of their life due to its role in regulating interstate and international communications by radio, television, wire, satellite, and cable. What people may not recognize is the extent to which every area of their life is intertwined with the communications technologies the FCC has responsibility to regulate… So, while the formal charge of Congress to the FCC can be summed up in less than 30 words – ensure that the American people have available, at reasonable costs and without discrimination, rapid, efficient, Nation- and world-wide communication services; whether by radio, television, wire, satellite, or cable – the day-to-day reality may be that there is no more ubiquitous presence in the lives of most Americans than the FCC-regulated communications industries."

Is this reassuring or discomforting? Put another way: Has telecommunications regulation helped or hindered competition, investment, invention and consumers? History indicates that government has functioned as the major obstacle to expanded entrepreneurship and innovation in telecommunications. That most certainly needs to be kept foremost in mind as policymakers debate changes in telecommunications policies going forward.

Federal communications regulation dates back more than 140 years to the Telegraph Act of 1866. This was in response to multiple carriers in the 1850s eventually being consolidated into Western Union.[i] The 1866 act went in two different directions. On the one hand, it "intended to foster competition by allowing any company to erect telegraph lines along post roads;" but on the other hand, it allowed the U.S. government to "buy out telegraph companies if it so chose."[ii] Given that second provision, it should have surprised no one that competition did not flourish.

Moving ahead to the telephone, after the American Telegraph and Telephone Company (AT&T) saw its patents on the phone expire in 1893 and 1894, competitors sprang up to serve markets that AT&T had not or had not provided adequate service, and just after the turn of the century, there were 3,000 competitors across the nation.[iii] In fact, by 1907, "non-Bell firms continued to develop and were operating 51 percent of the telephone business in local markets."[iv]

The economic reality of flourishing entrepreneurship and competition provides powerful evidence contradicting the theory of "natural monopoly." The natural monopoly idea provided a foundation for extensive government regulation in the telephone arena.

The first major federal intrusion into communications occurred with the Mann-Elkins Act of 1910.[v] This gave regulatory powers over telegraph and telephone companies to the Interstate Commerce Commission. It also established these companies as "common carriers," which "meant that telephone and telegraph companies had to offer their services without discrimination to all willing customers who were able to pay, and that they had to charge reasonable rates set by the ICC."[vi]

With the Justice Department threatening antitrust action in 1913, AT&T entered into the Kingsbury Commitment, in which AT&T agreed not to acquire any other independent companies unless they got rid of another system and to allow competitors to interconnect.[vii] The end result actually wound up reducing competition, as geographic monopolies developed and interconnection actually discouraged alternative networks from being built in both local and long distance markets.[viii]

Finally, in 1918 during World War I, the federal government briefly nationalized the telecommunications industry, raised rates, and the monopolization of the telephone industry was virtually complete.[ix] Again, it was the government that played the key role in monopolization.

Government interference continued with the Radio Act of 1927, which nationalized the radio spectrum. The development of property rights was tossed away in favor of political, bureaucratic controls. This limited entrepreneurship and innovation, and assured that competition to Ma Bell did not emerge through wireless technologies. The big players in both radio and telephone, of course, were quite satisfied to see the government stymie potential competition.[x]

All of the government's regulatory powers in terms of communications services were then consolidated in the Communications Act of 1934, with the Federal Communications Commission established. The FCC exerted extensive control over industries, worked under an anti-competition bias, and used the Bell system to advance a social agenda, such as implementing rate regulation and cross-subsidies in the goal of universal service.[xi] Regulating rates and providing subsidies served as additional obstacles to competitors.

Also consider that, in the 1930s, AT&T used its government-endowed monopoly power to mandate that any devise attached to their phone lines had to be company approved, so the company's monopoly was extended to telephones themselves.[xii] Naturally, entrepreneurship and competition were harmed.

But note the outcome of the Hush-A-Phone case in the 1950s. Gerald Brock described the case and its outcome in a chapter titled "The Regulatory Change in Telecommunications: The Dissolution of AT&T" in *Regulatory Reform: What Actually Happened* (edited by Leonard W. Weiss and Michael W. Klass):

> The Hush-A-Phone was a cuplike device that snapped onto the telephone instrument to provide speaking privacy and shield out surrounding noises. It was a passive nonelectrical device that directed the speaker's voice into the instrument. However, the AT&T tariffs at the time prohibited attachment of any device not furnished by the telephone company to telephone equipment. AT&T informed customers and distributors of the Hush-A-Phone that its use violated the AT&T tariff. Hush-A-Phone appealed to the FCC for protection from AT&T harassment, but the Commission upheld AT&T's right to prohibit the device. Hush-A-Phone then appealed the Commission's decision to the appeals court, where it won a crucial victory and established the key legal point that the telephone company may not interfere with the right of a telephone subscriber to use the telephone in any way he or she chooses so long as it does not harm other subscribers…

Still, restrictions remained in place regarding "any device that involved direct electrical connection to the system, provided a recording device on the line, or connected the telephone with any other communications system."[xiii] The FCC moved to further open this market in a 1968 decision, and then finally reaching full openness in 1980.[xiv]

In the 1970s, MCI and the U.S. Justice Department challenged AT&T on antitrust grounds. It was then that a deregulatory effort started to gain real traction. The government sought the break up of AT&T. As a result of the 1982 AT&T divestiture accord with Justice, AT&T was divested of its seven regional companies in 1984 – the Baby Bells. The MFJ (Modification of Final Judgment) barred the Baby Bells from entering into in-region long distance, as it was feared that monopoly control over local phone lines would allow them to unfairly compete against other long distance companies. For good measure, Baby Bells were excluded from manufacturing and information services. The MFJ was overseen by one federal judge. So, competition expanded and consumers benefited in long distance, but government-backed local monopolies persisted.

The next step worth noting is what happened when the federal government deregulated and opened the market further in terms of mobile communications. In the Winter 2003-04 issue of *Regulation* magazine, Robert Hahn, Anne Layne-Farrar and Peter Passell reported ("Federalism and Regulation"):

> Prior to 1993, states had the power to regulate prices and terms of service in what was then the decade-old cell phone industry. Not surprisingly, the states exercised the option. For one thing, it seemed a logical extension of state regulation of intrastate wired phone service. For another, the potential for competition was limited because the Federal Communications Commission had assigned radio spectrum for cellular communications to just two providers in each locality, one of which was the old Bell operating company.
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> But under the umbrella of the Omnibus Budget Reconciliation Act of 1993, Washington preempted state authority over rate and entry regulation in mobile telephony. The addition of more spectrum (distributed through federal auctions), along with improvements in technology, increased the number of potential competing systems and facilitated the assembly of six national service networks.
>
> The FCC chose to waive its right to regulate rates and entry. But state predictions that service providers could and would exploit market power in an unregulated environment did not come true. Falling costs, combined with increased competition in virtually all service areas, has led to dramatic increases in both the number of subscribers and average usage rates along with dramatic declines in prices.
>
> The average price of a minute of calling time fell by nearly three-quarters between 1994 and 2001.

Meanwhile, regarding the MFJ, the local telcos subsequently argued that telecommunications policy and their futures should not lie in the hands of one judge, but be determined by Congress. This became a major impetus to the Telecommunications Act of 1996.

The 1996 act was the first major overhaul of U.S. telecommunications policies since 1934, and it had overwhelming support. It passed the U.S. House of Representatives by a vote of 414 to 16, and the Senate 91 to 5, and was signed into law by President Bill Clinton on February 6, 1996. And both the major local telephone companies and long distance firms supported and praised the measure. It was structured so that once the Baby Bells opened their markets to competitors, they would be allowed to enter in-region long distance, which they previously had been barred from by the courts. The theory was that everybody got something – long distance could get into local and vice versa, and consumers would have expanded choices in all markets.

While a step in the right direction, the market largely left the 1996 act behind. Technology has expanded competition in telecommunications services, with telephone, cable, wireless and satellite mixing it up, merging and competing to serve consumers – including small businesses – in terms of telephone, Internet, and television services. Services have expanded and improved, and costs have come down.

But even as technology, innovation, entrepreneurship and markets push ahead, there are special interests and elected officials who seek to maintain or even create new governmental roadblocks.

What's Next? The "Net Neutrality" Debate

As the history of telecommunication regulation makes clear, government interference in the market usually is spurred by the political demands of narrow interests, rather than by a true economic imperative or by a need to protect the public. That is the case again with the push for "net neutrality" regulation.

Those advocating net neutrality assert that all Internet traffic should be treated equally, including in terms of costs. In effect, net neutrality proponents have a set view of how Internet service providers, content providers and consumers should interact, and they want politicians and government bureaucrats to spell that out and enforce it.

In a February 20, 2007, *Washington Post* article, reporter Charles Babington noted that net neutrality "is shaping up as a Democratic issue this year, largely because its most fervid advocates are liberal bloggers and other Internet activists who play a big role in the early stages of choosing a Democratic presidential nominee." What's the beef? Babington reported: "Without such restrictions, proponents say, a user might find it time-consuming, or even impossible, to call up a favorite site that carriers have relegated to slower lanes for economic or even philosophical reasons."

Has anyone ever suffered from this phenomenon? Babington pointed out that Christopher Wolf, co-chairman of Hands Off the Internet, reported that industry critics cannot come up with a case whereby a U.S. user was blocked. Babington continued: "But some groups that rely heavily on their Web sites to share information, raise money or promote causes say they fear it's only a matter of time." So, there is no public harm. Instead, we see a group pushing for regulation because, in their opinion, something might happen in the future.

In reality, all Internet traffic is not equal. For example, audio and video content (including television shows and films) is simply exploding on the Web. Consider that, for example, where YouTube did not exist a couple of years ago, Internet users are currently downloading 100,000,000 videos per day, according to Fiber To The Home Council (FTTH Council).

Not surprisingly, the future plans and business models of many companies are built around the notion that consumers are getting quite comfortable downloading their entertainment, as well as other things (like medical files and the like) from the Web. FTTH Council reports that Netflix, which currently mails 1.4 million DVDs everyday, plans to begin delivering movies via the Internet. If you consider (again, according to FTTH Council) that downloading a high definition movie requires more bandwidth than viewing 35,000 web pages (or to download 2,300 songs from iTunes), it's easy to understand the magnitude of broadband capacity that will be required to move such traffic quickly and seamlessly from point A to point B.

As the volume of such content increases exponentially, Internet service providers need to expand and upgrade their networks to keep both content providers and consumers pleased. *That requires*

investment. Net neutrality regulation proponents essentially argue that various business and investment models must be off limits. Naturally, imposing regulations that comport with this view would severely disrupt investment.

But why shouldn't ISPs be able to offer premium services to certain content providers that would benefit both content providers and consumers? And why should the government dictate how broadband service providers, content providers and consumers interact? Again, the answer is not about economics, or a need to protect the public, but it's special interest politics.

The Small Business Angle

America's small businesses are only beginning to experience the power and potential of the Internet. Pre-regulation – that is, regulation like net neutrality that seeks to address a problem that has yet to actually occur – will have consequences for future investment and impending innovations. With the Internet only in its early stages, radical government intervention at this critical juncture could create unintended consequences for small businesses with respect to costs, competitiveness and their growth potential.

The regulatory framework as prescribed by net regulation proponents is, at its core, a "one-size-fits-all" approach, which has never been good for entrepreneurs who need flexibility and choice in managing their businesses.

Will small firms be harmed by differentiated or prioritization services as pro-regulation forces claim? Well, such services are already on the market for small and mid-size businesses, along with more traditional services for start-ups, home-based businesses or entrepreneurs who may have less complex business models. The beauty of differentiation is scalability – that is, small businesses choosing appropriate telecommunication services that match their stage of growth, and financial capabilities.

For some businesses, for example, that may mean a low-cost and simple package for high-speed Internet access versus a speedier connection, and more complex services. A simple review of Verizon's high-speed Internet packages for businesses show monthly pricing from $29.99, $39.99, $59.99 and up to $199.99. Business email, security services, or web services are also offered depending, again, on scale and needs.

Some small and mid-size firms are taking advantage of newer, more advanced telecommunications services to meet operational and cost challenges.

Consider, for example, the case of Tijuana Flats Burrito Co. in the Orlando, Florida area. According to a March 7, 2007, story in the *Orlando Sentinel*, this fast-food restaurant uses a next-generation Internet connection to "transmit big files and conduct daily backup of vital company data." The connection stays busy most of the day "transmitting large orders to the vendors who supply the restaurant with beef, chicken, produce and cheese, all the while sending regularly updated sales reports to company headquarters." Tijuana Flats uses FDN Communication's "MaxBand" high-speed network.

These higher speed connections can be more than 10 times faster than traditional high-speed services. According to the article, monthly service charges range "upward from $79.99, depending on speed and service."

The upside for firms using speedier web connections? Lower operating costs, and more efficient operations. Rich Furno, Tijuana Flats' assistant manager, says such a service allows him to stay out front and monitor what is going on in the store, thus enhancing customer service.

In the same article a dental practice, served by Bright House Networks (an Internet Service Provider), uses a higher-speed connection to "quickly share appointments, charts, X-Rays and doctors' notes over the networks." As noted by the article, entities that generate big files like engineering firms and medical clinics that require "fat pipes" to deliver medical imaging, like radiology files, are turning to these enhanced services because they help meet a critical need. These speedier web connections are literally transforming businesses, all the while opening the business owner's eyes to greater opportunities. Yes, these services cost more, but they are more than paying for themselves in time and money saved. Oh, and no other business's Internet service has been disrupted, or content or web site blocked due to such premium-need services.

Competition in the higher-speed Web connections market is also quite vibrant as noted in the article. The piece mentions a handful of firms that offer the speedier service to businesses in the Orlando area (there are others of course) including Embarq (a spin off from Sprint Nextel), FDN Communications, Bright House Networks and AT&T.

"One-Size-Fits-All" Regulation

Would small business owners want the "one-size-fits-all" approach prescribed by net neutrality proponents? Would net neutrality policy protect them from the next Google, eBay, or Amazon as part of the rhetoric we hear for advancing such regulation? Is this what keeps them up at night?

The answer is, of course, "no." After all, most entrepreneurs understand the economics of doing business in the marketplace and agree with the general concept of paying additional dollars for higher levels of service. Business owners are very aware they have multiple choices in the telecommunications and Internet marketplace, and marvel at the new and innovative choices that regularly hit the market.

Take, for example, Verizon's announcement in April 2007 that it is offering its DSL customers advanced PC support for $9.99 per month. This unlimited support will help customers deal with spyware, adware, Internet security, hardware issues, computer operating systems and other issues that may arise. According to Verizon, they are rolling this out "at a time when consumers are finding it harder to get free support from either PC or software makers." A special toll-free number is available around the clock where they will get a customer service representative trained in PC problem-solving.

As the above demonstrates, Internet service providers, content providers, and entrepreneurs are currently enjoying the freedom to develop various business models, and to experiment and

innovate in order to determine what works best in the marketplace. Would it make sense for Internet service providers to poorly serve small business owners, or leave them in the "slow lane" as some contend, after investing extraordinary time and resources to attract their business?

The small business market is extremely powerful and profitable, and even *if* the dire scenario painted by net neutrality proponents came true regarding the threat of inferior service or second-class treatment on the Web, wouldn't the power of social networks quickly put a stop to such mistreatment?

Economics teaches that competition and cooperation in the free market, with consumers making the final decisions, works far better than politicians and bureaucrats taking control. Internet service providers have every incentive to please both consumers and content providers. It is a clear example of what an exchange is in the free market. Consumers want content. Content providers want consumers to visit their sites. Internet service providers have every incentive to bring those parties together.

A July 2006 debate on net neutrality hosted by the Progress & Freedom Foundation served up a few tidbits worth pondering:

> • Thomas M. Lenard, PFF Senior Fellow and Senior Vice President, observed: "First, broadband is a very young, rapidly changing business. It is unclear what viable business models will look like as the industry evolves. Second, the rollout of broadband in its various forms entails hundreds of billions of dollars of investment capital… The question is whether you want to impose common carrier type regulation - which is what a net neutrality requirement would do – on a young industry, which would severely inhibit the development of business models, with potentially very serious consequences for the incentives to invest in broadband infrastructure."
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> • Echoing such concerns, Adam Thierer, Senior Fellow and the Director of PFF's Center for Digital Media Freedom, declared: "So, again, I'm not sure what structures, which business arrangements, which architectural configurations or platform policies are going to be best in the future. All I know is that I want to see the sort of experimentation that is necessary to figure the answer out to that question. Network neutrality regulation would likely prohibit us from getting there. It would prohibit us from witnessing that sort of marketplace innovation experimentation, especially with pricing policies, because it is, at core, the forced commoditization of broadband."
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> • Finally, David Farber, Distinguished Career Professor of Computer Science and Public Policy at the School of Computer Science at Carnegie Mellon University and former Chief Technologist for the Federal Communications Commission, neatly summed up concerns many have with government getting involved in such matters: "Giving government the opportunity to muck in this arena frightens me, especially the passing of laws which, at least from my perspective as a

> technologist, are incredibly hazy, and every time hazy laws are passed, there's an opening for, quite often, mischief."

A government dictate that would preclude, for example, some fees based on broadband usage by content providers or charges for premium services not only would stifle innovation and limit choices, but also would shift many costs directly onto the backs of small business owners. Incentives to invest in expanding and improving broadband networks clearly would be curtailed.

The implications for small businesses, as entities that both purchase Internet access and seek out customers via the Internet, would not be positive. It would lead to higher costs for both small businesses, and their current and potential customers.

The Web torrent created by YouTube, and the future plans of companies like Netflix barely scratch the tip of the iceberg regarding how the Internet is being used and will be used to meet consumer needs more quickly and efficiently. Business use of the Internet will explode even more, with small firms in particular learning from the experiences and best practices of the early adopters and innovators that are using a variety of Web-based strategies in business operations.

Whether such strategies include using video or content-rich e-communications for marketing purposes; delivering large files of information or data to customers, vendors, suppliers, satellite offices or employees that work from home; utilizing e-commerce to sell products or services; or for any number of purposes as more businesses adopt solutions of an electronic nature, the more need there will be for broadband and a properly functioning Internet.

The decade-long run on a pro-investment policy with respect to telecommunications and the Internet has created historical and positive changes, as well as unlimited opportunities for entrepreneurship and wealth creation. Now is not the time to be ratcheting up regulation or regulatory uncertainty when untold billions in new investment dollars will be needed to increase broadband capacity, modernize and upgrade the infrastructure of the Internet and incentivize entrepreneurs to develop more innovations that awe and serve consumers.

Video Choice and Competition

Now consider cable television/video services. Technological advancements have made competition possible. Yet, only four percent of U.S. households have more than one choice for wired video services, according to the TV4US Coalition.

This is the case because more than 33,000 local governmental bodies regulate cable television franchising across the nation. This is not about sound economics or serving consumers. Instead, it's about political power and turf.

Municipality-by-municipality franchising naturally raises costs. The Phoenix Center for Advanced Legal & Economic Public Policy Studies estimated that local government approvals for video services cost consumers $8.2 billion in 2006, with that estimate rising to nearly $30 billion after four years.

Fortunately, there are examples of enlightened officials who already have moved to expand video competition. Take California. In late September, Governor Arnold Schwarzenegger signed legislation that eliminated municipality-by-municipality franchising in favor of a statewide permit to deliver Internet and television services to both homes and businesses. Earlier, Yale Braustein, an economics professor in the School of Information at UC Berkeley, projected that competition would reduce cable television subscription prices by 15% to 22% in the state. Reuters reported that Verizon Communications planned to expand its fiber-optic network in California, and AT&T looked to invest up to $1 billion in its network and launch an Internet-protocol video entertainment service. The *Los Angeles Times* noted that both companies would start competing to sell pay television services in 2007.

Consider what the *Asbury Park Press* editorial page had to say on November 25, 2007, about developments in New Jersey: "Cablevision's announcement last week that its telephone and Internet service prices will remain unchanged for the second straight year and its cable television prices will rise just 1.1 percent in 2007 proves that competition works for the consumer... With a state law approved in August designed to boost cable competition and reduce rates, Verizon is set to give consumers their first opportunity to choose cable companies. It's about time."

James Glassman reported in the September 28, 2007, *Wall Street Journal* that the American Consumer Institute found that statewide franchising in Texas in 2005 resulted in 22% of consumers switching cable TV providers, with savings averaging $22.30 per month.

Twelve states so far have taken pro-competition steps – California, Connecticut, Florida, Indiana, Kansas, Michigan, New Jersey, North Carolina, Oklahoma, South Carolina, Texas and Virginia. In terms of politics, these are both blue states and red states. Indeed, in the cases where state legislators weighed in on video choice, the votes in favor have been overwhelmingly and bipartisan, as noted below:

State Votes in Favor of Video Choice

State	Year	Vote
California	2006	Assembly 77-0, Senate 33-4
Florida	2007	House 117-2, Senate 30-3
Indiana	2006	House 78-18, Senate 42-7
Kansas	2006	House 123-0, Senate 40-0
Michigan	2006	House 80-21, Senate 26-12
New Jersey	2006	Assembly 61-13, Senate 32-5
North Carolina	2006	House 101-8, Senate 43-0
South Carolina	2006	House 106-0, Senate unanimous
Texas	2005	House 144-1, Senate 24-3
Virginia	2006	House 93-5, Senate 38-0

Source: AT&T and media accounts

Meanwhile, at the federal level, an FCC 3-2 vote in December gave state and local authorities a 90-day deadline to act on video-franchising applications, and struck down other impediments to local competition.

Impediments? Consider, for example, a January 2, 2007, *Wall Street Journal* editorial highlighting that "county commissions, city governments and other so-called local franchising authorities have slow-rolled approval or made unrelated demands – such as the construction of a public swimming pool, parking garage or in-kind cash payments – a condition for allowing phone companies to offer cable."

The TV4US Coalition is right when it declared: "Consumers deserve, and today's economic and technological realities demand, streamlined and uniform rules that promote competition, investment and accelerate broadband deployment. The patchwork quilt of local franchising rules designed in the 1960s is now impeding new investment and competition in video services. We need to modernize the rules so they will deliver consumer choice, broadband deployment, investment and economic growth." All of this obviously is crucial for entrepreneurs and small businesses that rely on broadband services.

Special Access Services

What about "special access services" or "special access lines," which are high capacity lines provided by incumbent carriers to businesses, and other telecommunications firms? These services meet a variety of voice and data needs for businesses, including, for example, point-to-point communications, long distance services, and high speed Internet access.

In 1991, the Federal Communications Commission (FCC) imposed price caps on these services for incumbent carriers. But as competition spread - due in part to the 1996 Telecommunications Act, but mainly because of technological advancements and innovation - the FCC issued a price flexibility order. That 1999 order allowed for price deregulation in metropolitan statistical areas (MSAs) given that the incumbents could point to competitive triggers being met.

A GAO November 2006 report ("FCC Needs to Improve Its Ability to Monitor and Determine the Extent of Competition in Dedicated Access Services") noted that "some level of pricing flexibility has since been granted to the four major price-cap incumbents in 215 of the 369 MSAs in the United States and Puerto Rico," with "full price deregulation in 112 MSAs."

The key recommendation from the GAO report was for the FCC to pull together more complete and reliable data upon which it can better evaluate its policies. Makes sense, as long as the costs do not exceed the benefits. At the same time, though, the GAO report, while acknowledging extensive data shortcomings, attempted to look at price changes under the price flexibility order. The study found that "in areas where FCC granted full pricing flexibility due to the presumed presence of competitive alternatives, list prices and average revenues tend to be higher than or the same as list prices and average revenues in areas still under some FCC price regulation."

Re-regulation forces cited these findings as reason to re-impose price caps. However, the GAO findings have to be taken with a large dose of skepticism given the acknowledged data

shortcomings. But let's assume they are in the ballpark. The re-regulators fail to understand how the market and prices work. Government regulation and price controls hardly create the proper climate for the facility/network competition that will benefit business customers. Deregulation is needed for two reasons. First, it shows that government is willing to let the market work, thereby reducing regulatory uncertainty and costs. Second, the price mechanism can send signals to market players. It should not be surprising that market prices in freshly deregulated markets are higher than in places where price controls are still in effect. Prices serve as signals to competitors. Higher prices signal economic opportunity. So, incumbents have to keep this economic fact of life in mind as they work to serve consumers in terms of both price and service.

For good measure, it is obvious that competition is expanding for both residential and business consumers. That competition is coming from telephone companies, cable providers and wireless services. Indeed, consumers have more choices than ever before in terms of their communications needs. Re-regulation in an area like special access services would only undermine innovation, investment and competition, and wind up hurting consumers of such services in the end. Indeed, we have seen this time and again over the past century in the arena of telecommunications.

Internet Taxes

Finally, it must be noted that it is not just regulation that creates potential problems for entrepreneurs and small businesses when it comes to telecommunications. There also are taxes.

In 2004, a moratorium on Internet access taxes, and duplicative/discriminatory taxes on e-commerce was extended. This moratorium put a halt to states looking to cash in on the tremendous growth occurring via the Internet and e-commerce, as new taxes would only raise costs for both businesses and consumers, and hamper opportunity for all. But that Internet tax moratorium is scheduled to expire in November 2007.

Legislation has been proposed in both the U.S. House of Representatives and the Senate to make this moratorium permanent. It has bipartisan backing, and deserves to be passed by Congress and signed into law by the President.

Conclusion

Entrepreneurs and small businesses throughout the economy have reaped tremendous rewards from advancements in telecommunications technology. And most of us cannot even imagine what lies ahead, that is, as long as government does not step in with misguided and unnecessary initiatives.

Entrepreneurial innovators have played and will continue to play important roles in bringing about the technological advancements, while countless small business owners also start up and expand enterprises by utilizing these inventions and innovations. Quite simply, technology makes this a very exciting time to be an entrepreneur, with consumers and employees benefiting from more choices, reduced costs and increased opportunity.

A key threat to this rosy economic future is governmental policy gone awry. History and economic common sense make clear that markets and technology best flourish in a climate of economic freedom, not one where special interests and government try to call the shots. When it comes to telecommunications and technology, let businesses and entrepreneurs compete and cooperate in the free market, with consumers – not the government – ultimately deciding what works best.

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