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America's silent crisis in telecoms

By John Rutledge and Sonia Arrison
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Telecom reform cannot compete for headline space with emotional topics such as social security, tax reform and Iraq. But it is America's eroding telecom position that is quietly reducing US workers' standard of living.

Inadequate investment in high-speed telecom networks undermines US global competitiveness, making it imperative that policy makers solve the telecom problem first. Unless US workers have the tools they need to compete, there will be no one working to pay social security or income taxes. Foreign workers don't pay US social security taxes.

The Bush administration has a unique opportunity to address this silent crisis now. Congress has already announced it will rewrite the flawed 1996 Telecom Act this year. And the resignation of Michael Powell as chairman of the Federal Communications Commission gives the president a chance to appoint a new chairman who will push for policies that would return the US to its former position as the No.1 communications network in the world.

The link between telecom policy and economic growth is poorly understood by the general public, but those watching the sector know that the telecom industry has been subject to harmful micromanagement and price controls for years. The 1996 Telecom Act undermined property rights through a process known as forced access. This wrong-headed policy forced network owners to allow competitors to use their networks at below-cost, government-set rates. FCC attempts to implement policy were consistently rejected by the courts. Depressed returns and unpredictable rules caused capital to flee from the sector.

But when telecom is dragged down, the entire country is affected. The telecom network is not only a source of jobs, value and innovation in its own right, but it is also the central nervous system of the overall economy. We all use it to exchange information with our customers, our workforce and our suppliers. In today's service-driven economy, the speed of the telecom network determines the speed of commerce, which we measure as GDP. It also determines our paychecks. The amount we earn is limited by our productivity – what we can produce in a day of work. Faster information flows mean higher productivity and rising incomes.

According to the latest figures, the US has sunk to number 14 in broadband penetration. China, India, Japan and Korea have made high-speed telecom national priorities. Their companies can communicate with US customers at the speed of light over fibre-optic lines. Paradoxically, this means it's faster for American companies to hire software engineers in China or call centre representatives in India than US workers in a small town. And US companies outside major cities generally do not have access to fibre optic networks.

Work that could be done by folks in small towns in Kansas or Iowa will go to India instead because it has a fast information pipeline to US businesses. Amazingly, America's policy-makers act as though they haven't noticed, creating one of the direst silent crises of the decade.

The uncertainty caused by archaic regulations caused market capitalisation in telecommunications to fall 67 per cent, from $1,135bn to $375bn, between March 2001 and July 2004. More than 380,000 jobs were lost – a 29 per cent drop – even as the overall economy returned to growth. And it has led to the hollowing out of the US telecom equipment industry. This picture will only get worse if we continue to ignore the importance of communications policies.

The president has said he wants to see ubiquitous broadband rollout by 2007. It will require a complete rethinking of telecommunications policy and strong leadership at the FCC to make that happen.

A new telecom policy should be based on today's realities. Telecom is a global industry. Competition is intense. High-speed telecom networks require large and continuing investments. Investors move capital wherever it will earn returns. Secure property rights are paramount. Price controls destroy investment and drive capital away. Technology changes too quickly to regulate.

In this world, regulators should ask the tough question: why am I here? What should the role of regulators be in a competitive global economy?

If the objective is innovation, investment, rising productivity and growth, the answer is clear. Regulators should get out of the business of economic regulation, restricting their attention to the few areas – spectrum management, emergency services, and antitrust – where market solutions are not politically acceptable. This means no intrusion into investment decisions, operating decisions, or other factors impacting returns on capital.

The President has a chance to put his money where his mouth is when he appoints the new FCC Chairman. The right person could give the Ownership Society its first real victory, triggering massive investments in high-speed networks. Having the No.1 communications network in the world would give Americans greater employment, increases in productivity, and rising standard of living.

We can't afford to get this one wrong.

John Rutledge is chairman of Rutledge Capital in Greenwich, Connecticut. Sonia Arrison is director of technology studies at the California-based Pacific Research Institute. Emails: jr@rutledgecapital.com and sarrison@pacificresearch.org