

A Competitive Industry Benefits Everyone

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It will take more than an upturn in the economy to get the fires going in the telecom/IT sector. The industry is languishing today, its promise largely unfulfilled. After years of deregulatory and competitive efforts, every segment of the industry clamors for continued government protection. So long as this mentality prevails, people and businesses everywhere will be denied the benefits of advanced communications and information.

As widely reported in leading newspapers and magazines and the trade press, telecommunications has been hurt badly by the current economic slowdown, struck by declining demands for new services, unused capacity and embedded costs. Revenues have fallen for suppliers and providers, established and new, resulting in sharply reduced earnings, dramatic declines in stock prices and many failures. As bad as the slump in the economy at large, the situation in the telecom/IT sector is far worse, with a fall-off in equipment sales and investments, waves of layoffs, and delays in both the convergence of telecommunications and Internet services and in extending high-speed, interactive broadband services to small businesses and consumers.

The far-reaching consequences of the distress in the telecom/IT industry are well known. Advanced communications and information services have transformed industry after industry, from banking and finance, to manufacturing and engineering, medicine and the life sciences, travel and leisure. The telecom/IT industry has also sparked sustained productivity improvements in the U.S. and invigorated the international economy. Virtually every industri-

alized and developing country recognizes the communications and information infrastructure as the indispensable basis for strong and continued economic growth.

There is some good economic news in the U.S., which should have positive international impact as well. Housing starts, a bellwether for telecommunications, remain strong and have even picked up, according to recent government reports. Manufacturing shows signs of leveling off after eight consecutive months of decline. Inflation appears non-existent, consumer spending remains strong and the Index of Leading Economic Indicators is positive. These factors could indicate an easing or even reversal of the current slowdown over the next several months and a return of the economy to stronger growth and stability.

The telecom/IT sector will play a big part in any turnaround and will get a boost in the process. But, beyond an upsurge in the economy, critical as that is, will companies in the telecom/IT sector, legislators and regulators stand up to the challenge of competition, put aside the safeguards intended of a regulated monopoly era and recognize that equipment suppliers, service providers, customers and the economy will all benefit from competition?

It is nearly a decade since the Internet first opened our eyes to the potential of the Information Age and more than five years since passage of the U.S. Telecommunications Act—heralded as opening the door to competition and to convergence of the information, communications and entertainment industries. It is already a number of years since members of the European Union and countries in Asia and Latin America began privatizing and deregulating telecommunications.



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What are the results? Competition has brought fairly dramatic price reductions on key international routes and, in long distance, businesses and consumers have a choice of service providers and lower prices, but little more than that. Attempts by long distance carriers to provide broadband over cable have been slow, spasmodic and, recently, marginally successful. Acquisitions and mergers have met mixed results: divestitures and worse, as once renowned carriers, such as AT&T and BT, shop recent purchases and leave customers and shareholders wondering at declining service, stock prices and dividends. Major energy companies and Global Crossing have sparked bandwidth trading, which could introduce an important new dimension to long distance and international telecom competition.

With notable exceptions, competition in local service is negligible. A few well-funded CLECs—RCN and FOCAL Communications, for example—have established a solid customer base and strong revenue streams, but many other promising CLECs and ISPs have filed for bankruptcy or have just disappeared.

For years we have heard that a competitive communications and

information services industry, operating in an open and dynamic environment, would encourage creative new applications. In a competitive environment, subsidies will be required to assure telephone and Internet access to the poor and persons in remote areas and to schools and hospitals. But surely government can create a more equitable and efficient system than exists today.

Companies in every part of telecommunications and Internet companies as well are not shy about asking government help to protect their markets. In the present intense lobbying campaign on the Tauzin-Dingell bill, long distance and local service providers are spending millions of dollars to secure privileged positions in providing broadband. Internet infrastructure and service providers, for their part, have learned well from their telecom peers: the Internet is an extraordinary public resource, they say, but too young and fragile to pay its own way, so Internet services must remain free. The telecom/IT industry has what one senior executive calls a “stovepipe” mentality, with companies failing to recognize that their own success will be enhanced if the entire industry is profitable. It is a

closed, static view of the industry, which is seen as a zero-sum game.

A new industry and economic model could reactivate the powerful dynamic of telecommunications and the Internet and enable us to get on with the much needed convergence of these closely intertwined industry segments and with provisioning services the international economy desperately needs.

A recent study by Robert Crandall of the Brookings Institution, underwritten by Verizon, concluded that extending broadband services to businesses and homes in the U.S. would add some \$500 billion to the U.S. economy alone. Whether or not that number is correct, new applications already have generated enormous pent-up demand for broadband among small businesses and consumers around the world. Competition could unleash untold new resources for these and future applications, with benefits to be enjoyed by all.

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