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# Economic Policy Institute

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## **FCC Policies Stymie Telecom Industry Ill-advised policies contributed to the loss of 380,000 jobs**

Outdated rules in the Telecommunications Act of 1996 strangle the established local wired phone companies and have contributed to the loss of 380,000 jobs across the entire economy, or as much as 15 percent of the total jobs lost in the last recession. Stephen Pociask lays out the facts in *A Failure to Communicate: Reforming Public Policy in the Telecommunications Industry*, released today by the Economic Policy Institute.

“Reforming and updating current policies will promote job growth and revitalization of the telecom industry,” said Jeff Keefe, EPI telecommunications project director.

The Telecommunications Act of 1996 was intended to promote investment and innovation, thus lowering prices to consumers and encouraging investment in local wired phone networks. In reality, it pits the established local wired telephone companies, like Verizon, Bell South, SBC and Qwest, against other phone companies, including AT&T and WorldCom, in ways that discourage investment in building and stymie technological advances.

The FCC set rules under the Act that obligate established local wired phone companies to make their telephone facilities available to other companies at prices substantially below the actual cost of building and maintaining those facilities. According to *A Failure to Communicate*, the established telephone companies are not receiving enough return on their investment to continue building and maintaining their wired facilities.

Although other companies poured into the market initially, the bargain wholesale rates competitors pay are so low that there is no incentive to build new and more advanced networks. As a result, both the established local wired phone companies and other companies have cut their capital spending significantly.

The obvious competition to the wired phone industry is from intermodal companies, i.e. competitors using wireless cell phones and cable networks capable of providing voice, data, and video services. The outdated FCC rules did not anticipate that these intermodal competitors would come to define the market.

Telecommunications services lost nearly 193,000 jobs between January 2000 and November 2003. Many jobs were lost due to the collapse of the Internet bubble in 2000, but that does not account for all the job loss. Wired telecommunications employment is lower today than when the Act was passed (See Figure 1) in part, because phone companies were discouraged from

investing in infrastructure to meet the demands of the broadband market. That market is now dominated by the cable industry. “The telecommunications industry was caught in a regulatory time warp that discouraged growth and innovation,” said Stephen Pociask, president of TeleNomic Research.

### **Hardest hit states:**

The job loss in this industry is geographically widespread and affects other industries. All states where data were available lost telecom jobs. The hardest hit states were Texas and California, with the loss of 26,700 and 20,200 wired telecommunications jobs, respectively, between August 2001 and August 2003. New Jersey, Colorado, Virginia, Massachusetts, and Maryland also suffered losses of over 20 percent of their telecom services jobs. (NJ lost 24.30 percent, CO lost 26.30 percent, VA lost 23 percent, MA lost 22.90 percent, and MD lost 20.60 percent. *See Table 1 below for more state listings.*) Employment levels in firms that make telephone equipment fell 56 percent since December 2000, for a loss of another 57,000 jobs nationwide.

Lowering consumer prices is another goal the Act has failed to achieve. *A Failure to Communicate* shows that local telephone prices have increased by nine percent since 1996, compared to the seven years prior to the Act, when prices fell by 13 percent.

### **Policy recommendations:**

*A Failure to Communicate* recommends raising the prices that established telecom companies can charge to market challengers. When it is no longer cheaper to rent than to build new and efficient facilities, challengers will be driven to invest in new technology, thereby creating more jobs.

Cable, cell phones, and Internet services also compete in the race to transport electronic voice, data, and video. Cell phones, in particular, are making a serious impact on the established wired phone companies. As the soaring number of cell phone subscribers cuts into the demand for wired phone lines, regulations need to keep pace. The study recommends that the FCC look beyond the wired phone technology and include cable, cell phone, and Internet services when defining the marketplace.

**Stephen Pociask** is president of TeleNomic Research, a consulting firm specializing in public policy analysis for information technology industries. He is affiliated with the New Millennium Research Council and previously served as chief economist and executive vice president for Joel Popkin and Co.

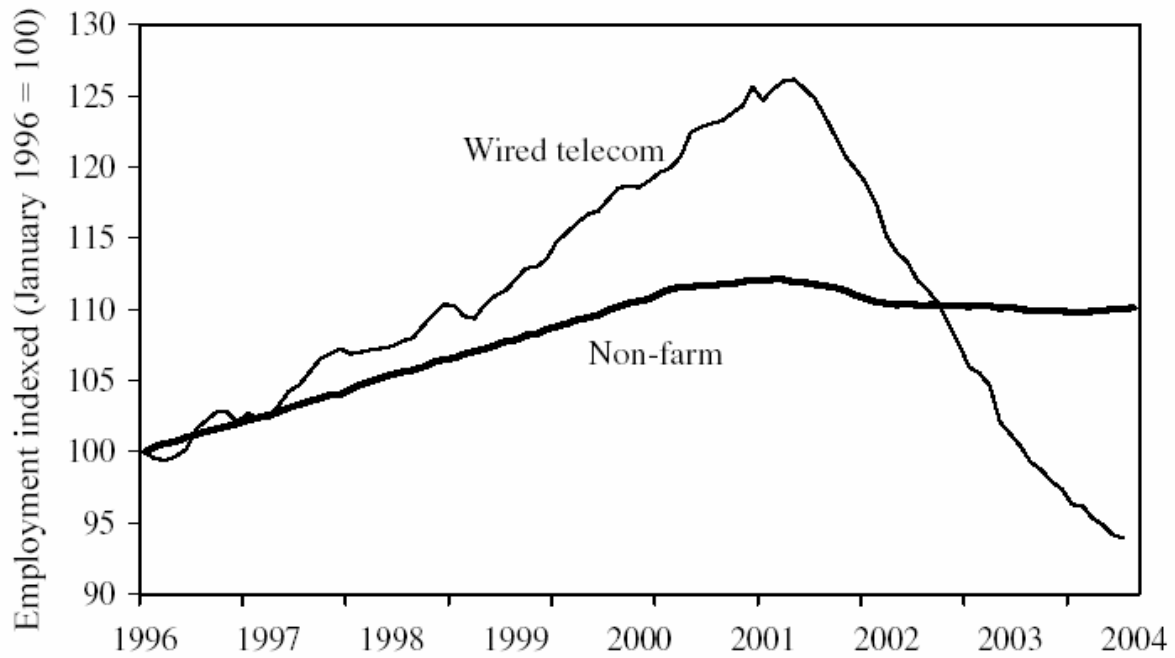
The **Economic Policy Institute** is a non-profit, non-partisan economic think tank founded in 1986. The Institute is located on the web at <http://www.epinet.org>

**TABLE 1 Telecommunications services employment  
August 2001 and August 2003 (thousands of jobs)**

	2001	2003	Difference	% change
Texas	125.3	98.6	-26.7	-21.30%
California	142.6	122.4	-20.2	-14.20
New York	79.2	64.1	-15.1	-19.10
New Jersey	55.6	42.1	-13.5	-24.30
Florida	79.5	66.6	-12.9	-16.20
Colorado	46.0	33.9	-12.1	-26.30
Georgia	66.9	55.0	-11.9	-17.80
Virginia	47.4	36.5	-10.9	-23.00
Massachusetts	28.8	22.2	-6.6	-22.90
Missouri	32.5	26.2	-6.3	-19.40
Washington	31.2	25.3	-5.9	-18.90
Maryland	25.7	20.4	-5.3	-20.60
Illinois	50.7	46.2	-4.5	-8.90
Ohio	37.5	33.2	-4.3	-11.50
Pennsylvania	47.3	43.3	-4.0	-8.50
Michigan	26.8	23.5	-3.3	-12.30
Minnesota	17.6	14.9	-2.7	-15.30
Oklahoma	17.5	14.8	-2.7	-15.40
Alabama	17.9	15.4	-2.5	-14.00
Arizona	21.6	19.2	-2.4	-11.10
Connecticut	16.1	13.8	-2.3	-14.30
North Carolina	28.8	26.8	-2.0	-6.90
Indiana	16.7	14.9	-1.8	-10.80
Oregon	10.7	9.2	-1.5	-14.00
Kansas	31.0	29.6	-1.4	-4.50
Tennessee	18.2	16.8	-1.4	-7.70
Nevada	8.6	7.3	-1.3	-15.10
Utah	6.5	5.4	-1.1	-16.90
New Mexico	8.8	7.9	-0.9	-10.20
Mississippi	9.2	8.4	-0.8	-8.70
West Virginia	6.5	6.0	-0.5	-7.70
Hawaii	4.9	4.5	-0.4	-8.20
Kentucky	10.3	9.9	-0.4	-3.90
South Carolina	13.6	13.2	-0.4	-2.90
Louisiana	13.9	13.6	-0.3	-2.20
Arkansas	8.9	8.7	-0.2	-2.20
Alaska	4.5	4.3	-0.2	-4.40
Idaho	3.3	3.2	-0.1	-3.00
<b>U.S. Total</b>	<b>1,293.0</b>	<b>1,129.1</b>	<b>-163.9</b>	<b>-12.70%</b>

Note: Telecommunications services data were not available for Delaware, Washington D.C., Iowa, Maine, Montana, Nebraska, New Hampshire, North Dakota, Rhode Island, South Dakota, Vermont, Wisconsin, and Wyoming. Data are not seasonally adjusted. These data include wired and wireless telecommunications. U.S. totals are from Bureau of Labor Statistics industry employment data; therefore, column totals do not sum to the U.S. totals shown in the last row.

**FIGURE 1 Telecommunications industry employment (1996-2004)**



Note: Telecommunications figures are not seasonally adjusted and exclude the strike affecting August 2000.

Source: Bureau of Labor Statistics, detailed reports at [www.bls.gov](http://www.bls.gov) .