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VIEWPOINT

Telecom Deregulation: It's Time For That Call

BY JOHN RUTLEDGE

I have great news. I have found the free lunch that economists are always looking for — a policy that will spur capital spending, increase growth, create jobs and help us remain the dominant economy in the world. It will even shrink the budget deficit.

All we have to do is deregulate the telephone sitting right on your desk.

High-speed communications technology has produced huge productivity gains for the U.S. economy in recent years by making large American companies much more efficient producers. Making high-speed communications available to small and mid-size businesses and households, by replacing copper wire with fiber optic cable, will produce even larger gains in the future.

Disappearing Capital

But invasive regulations, price controls and a dysfunctional policy process have created a state of confusion. As a result, the telecom industry today is frozen in a state of nuclear winter.

Investment in the telecommunications infrastructure has collapsed from \$118 billion in 2000 to just \$45 billion in 2003.

The eye of the hurricane is wireline investment — the lines that bring telephone service to our home or business — where capital spending fell by almost two-thirds over the same period, from \$85 billion to just \$30 billion. One-half the nation's fiber-optic plants are closed, 75% of fiber-optic workers have been laid off.

Research-and-development budgets at Lucent and Nortel have been slashed by a third. Equipment manufacturers like HP and Dell are shifting operations to the Far East and India. Market capitalization in the telecom industry has fallen by \$2 trillion, while 500,000 people have lost their jobs.

What we need is a policy that will increase capital spending, spur research-and-development efforts, boost growth and generate enough tax revenues to decrease the deficit. That policy is telecom deregulation. Not the phony deregulation we have experienced during the seven years since the 1996 Telecom Act — real deregulation.

The future of telecom is high-speed communications — broadband in industry jargon. Recently the New Millennium Research Council released a study that showed broadband deployment to households alone would generate up to \$140 billion in new invest-

ment, increase GDP by up to \$414 billion and create 1.2 million new jobs over the next decade.

These estimates show what a wonderful world it would be if we had the policies to let the broadband rollout proceed.

Instead, we have an Orwellian policy that expects some companies (the Regional Bell Operating Companies, or RBOCs) to build and maintain the network, knowing they will be forced to provide access to essentially all the elements of their business to other companies (principally MCI and AT&T) at below-cost prices set by local utility commissions.

The result is that RBOC earnings this year will be \$2.3 billion lower than they would be in the absence of the Federal Communication Commission's forced sharing policy. That corresponds to more than \$20 billion of lost market value.

Policies, which lower the return on capital invested in U.S. telecom assets, have an even worse impact in a global economy. There is an intense global competition for capital underway. The U.S. and China are the two main contestants. Where U.S. growth has slowed, China's has accelerated. Industrial production in China grew 17% in the most recent year. China is cooperating with Japan and Korea to develop new high-tech standards. They are taking steps every day to make China a destination resort for capital.

Policy Reversal

And they are succeeding with Nortel's recent announcement of a \$200 million research-and-development facility in Beijing, and Lucent's announcement of a \$230 million contract with China United Telecommunications.

It doesn't have to be this way. The president and Congress could direct the FCC to clarify policy and turn telecom investment in broadband around. The resulting increases in capital spending and growth would fuel a second major wave of productivity gains over the next decade, which in turn would help to keep inflation in check, support higher stock prices and generate the tax revenues we need to close the budget deficit.

With the election less than a year away, this is one free lunch the administration and Congress can't afford to skip.

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