

Pass It On: Telecom Matters

By Kent Lassman

Children can teach us the darndest lessons. Have you ever witnessed a group of children playing a game of telephone? One child whispers a message to a second. The second child whispers to a third until the message has been passed in this fashion to an entire group. Without fail, the message becomes confused oftentimes with hilarious results.

The rules of the game are designed to sow confusion. A long line of relays, *sotto voce* transmissions, a gaggle of giggling children and a perverse incentive for each child to mangle or tangle the words just a bit in order to make the message more fun without raising doubts of the listener. The rules that bind participants' behavior – the rules of the game, if you will – are of paramount importance.

In children's games, just as in vital sectors of the economy, the lesson holds: rules matter.

By logical extension, we typically take great care with the development of rules for the important parts of our life. The rules of the road govern driving; there are stacks of books and legal precedent to explain the rules of contracts.

However, policymakers in Austin do not always make the connection between the laws and regulations that govern communications and the relative importance that communications technologies have in the lives of Texans.

Quite simply, communications and information technologies matter a great deal to Texans and as a result the legal rules are also very important. In the marketplace, unlike in a game, good rules provide clarity and incentives for good behavior.

Readers of a journal like *Veritas* might be

inclined to examine the economic import of sectors like telecommunications, computing and software. There is no doubt that the strong productivity gains in the national and regional economy are tied closely to both the advances in communications technologies and in the adoption of more networked systems into the workplace.

Workers today accomplish more than ever before. How?

Through the innovation that results in desktop computers replacing the typewriters in an office pool and deliveries that are tracked with global positioning satellites and wireless inventory systems rather than with carbon paper and a clipboard. The effect is better and lower-cost products and services for consumers.

While connectivity is certainly found in the Internet and other computer networks, plain old-fashioned telephone networks are also a key ingredient to economic growth.

Important information is exchanged and agreements are made over the telephone before we engage in a wide range of buying and selling. Everything from placing an advertisement in the local paper to ordering a pizza for dinner is handled more efficiently and with less cost on the telephone rather than in person.

There are more than 13 million traditional telephone lines served in Texas. In addition, there are millions of subscribers to wireless services. Now more than ever, consumers are cutting the cord and taking their communications services with them wherever they go.

As of the third quarter in 2002, more than one quarter of personal, non-business calling minutes in the United States was done on mobile phones. Altogether, more than 600 billion wireless minutes were used last year across the country.

One reason for this shift is certainly the ability of technologies to meet consumer demands.

But a second, important explanation is the relative difference in the regulatory burdens placed on the two types of telephone service.

Wired telephone calls are regulated by the state *and* the federal government.

Wireless, on the other hand, has neither the same type of price controls or regulatory barriers to entry and exit of the marketplace. Similar discrepancies exist when other technological platforms are compared.

Cable, satellite, and wireline or wireless telephone services are each regulated and taxed in wildly different ways despite the fact that they are all communications services and they all help Texans collect and share the information necessary to help the economy grow.

Understanding the essence of communications policy economics cannot be found exclusively in the numbers. Productivity figures, tele-density numbers, penetration and roll-out rates, as well as capital investments are all interesting data but they only explain the prevalence of communications technologies in our lives.

From the way most citizens interact with their government to the way we work, learn, play, travel, keep in touch with loved ones and even, in some cases, the way we worship, all are affected by digital communications technologies.

At the end of the day, economic data only reinforces common sense.

Communications policy is relevant because communications technologies are part of the fabric of our lives.

Therefore, when we apply the lesson about the importance of rules we must recognize that the development of modern, market-oriented

communications policies will affect and improve the lives of all Texans.

A second perspective to bring to the question is a straightforward public policy analysis. Do our laws and regulations provide the results that we want?

Many close observers of telecommunications policy would say no.

As one friend likes to explain, a person does not have to be an expert in the intricacies of telecommunications law to understand that this area of law and regulation is among the most dysfunctional of all in the public square. There are inherent contradictions, overlapping and unclear jurisdictions of authority, widespread entry into the private marketplace by public entities, steep excise taxes on services that policymakers seek to encourage, and uneven regulatory burdens across different technologies that provide similar services.

An optimist might go so far as to suggest communications policy is the area where the most good can be done because of the widespread effect of the policies – they reach everyone in most aspects of our lives – and because of the high degree of state intervention in the marketplace.

Each of these perspectives – economic and public policy analysis – is removed at least one step from individual consumers. The focus is typically on either the numbers or the law. But it is worth peeling back a layer to focus on individuals and their use of technologies like computing and telecommunications to see a moral case for more freedom in the marketplace for communications.

Markets allow individual consumers to make voluntary exchanges – my money for your product or my labor for your money – based on their own preferences. As a precondition, the rules that

govern the marketplace where we exchange valuable communications must respect individuals as sovereign and dignified decision makers.

The alternative would be to eliminate voluntary exchanges and to coerce people into state-preferred or centrally planned outcomes. By definition, communications technologies empower individuals with new and useful information.

Perhaps the most valuable information to the marketplace is found in prices because they allow individuals to cooperate.

Prices coordinate information from producers and consumers throughout the economy. They transmit information about quality, reputation and shortages. They also provide incentives to adopt the least costly means of production.

At the end of the day, the economy flourishes when price information moves readily and with minimal costs. Communications networks – and the policies we adopt for them – are a principle determinant in how costly it is to move the vast amount of information necessary for a modern economy.

The effect of communications law is ultimately on the quantity and quality of consumer choices.

The changes that began in information technology decades ago continue to cascade quality of life improvements throughout the economy.

Likewise, new technologies – from instant messaging to voice over the Internet to satellite radio services – challenge our policymakers to keep pace.

As long as government rules and regulations set prices, determine which firms are allowed to offer services to various consumers and fail to create the proper incentives for investment, Texas consumers are unnecessarily disadvantaged.

Unlike in the games that children play, there are very high stakes for the outcome of the rules made in Austin that shape the communications marketplace.

Healthy and vibrant communications networks are essential to attract capital, to promote research and to develop new goods and services in Texas.

Scientific and technological advances are strong drivers for progress. And, the measure of progress, of course, is the advance of liberty and freedom.

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