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Texas Takes Lead on Franchise Reform

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The first telephone exchange in the United States opened in New Haven, Connecticut in 1878. The list of about 50 subscribers included three doctors, two dentists, 12 residents, and the local post office, police station, and meat market.

Nobody had a phone number--you just picked up the phone and asked the operator for your party ... unless you wanted to talk to someone after 2:00 a.m. The phone company wasn't open all night.

Telephone service eventually expanded beyond the reach of the wealthy few to become almost universal, but heavy regulation hindered technological progress in the industry.

After almost one hundred years, the primary technological advances in telephone communications were that you could dial most calls directly on your phone instead of relying on operator assistance, and you were able to choose a color for your phone other than black.

When it became clear to everyone that consumers were demanding service the regulated system couldn't deliver, the breakup of AT&T began a new era of telecommunications deregulation.

Immediate Benefits of Reform

The first benefit of deregulation was a rapid decline in the cost of long-distance service. Later, cellular technology began to offer competition to local phone services. And over the past few years, technologies for transmitting voice, video, and information have proliferated and converged at the same time.

And there is more to come. New technologies will move the convergence of voice, video, and information from the boardroom to the family room. A consumer will be able to watch his favorite football team play from the camera angle of his choice, watch a separate stream of stats, and video conference with his best friend while reviewing the latest blown call by the

referees--all at the same time. The boss's phone call during the game will be relegated to the inbox, along with rest of the video, voice, and email, for future review on the TV screen. And in another room, the rest of the family will be watching a movie just downloaded over the Internet.

The new technology may also give consumers greater control over the pricing of content. Because Internet Protocol video programming is not actually transmitted to the consumer until requested, it is possible consumers could purchase individual channels, instead of having to buy bundled programming as is the practice now.

Because competing interests are battling it out, trying to turn the vestiges of the regulatory system to their favor, consumers may have to wait a little longer to experience amazing technology like this.

The 2005 session of the Texas legislature saw telephone companies, cable companies, and cities fighting over video franchising. Urban phone companies wanted more price flexibility, while rural telcos wanted to protect their subsidies. Rural legislators wanted to protect their constituents from higher phone rates, while urban legislators wondered why their constituents had to pay part of rural Texans' phone bills. Nobody could agree with anybody on anything, so nothing was done to reform the system.

Texas Gets it Right

Fortunately for consumers, though, the legislature eventually got it right. In a special session that concluded this summer, the Texas legislature implemented a statewide video franchise and cut regulations, subsidies, and taxes. Legislators made Texas the national leader on this issue with a vibrant, competitive telecommunications marketplace and helped provide their constituents with superior telecommunications services at lower rates.

But there is still more to do. The legislature returns in January 2007, by which time telecom reform will have begun moving forward at the federal level. Texas can be proud it led the way for telecommunications reform in 1995 and has the opportunity to do so once again. But the market doesn't wait for anyone. Other states are taking action, too. (See "Michigan Moves Forward on Telecom Policy," page 3.)

Texas consumers will suffer if reform stalls. Competition in the marketplace, instead of political turf battles, is the best way to meet the demands of Texas consumers.

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