



## VI. TELECOMMUNICATIONS POLICY

*Legislators' Guide to the Issues*

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# Telecommunications

## THE ISSUE

Telecommunications remains one of the most regulated industries in Texas, although the state Legislature shouldered a program of comprehensive reform in 1995. When state and local taxes are combined, Texas telecommunications is one of the most highly taxed services in the nation. Consequently, most Texans pay a higher price for telecommunications and enjoy a smaller selection of services than residents of many other states.

Although state regulations were established in decades past to protect consumers against a franchised telephone monopoly, today that monopoly no longer exists and regulations do more harm than good.

Currently, state government regulates rates, terms, and service packages, hampering competition and hurting consumers:

- ★ State regulations limit consumer choice and artificially raise the price of some services to subsidize the price of other services at below-cost rates;
- ★ Rate fixing discourages new carriers from selling in Texas because they must compete against subsidized, artificially low price for basic services;
- ★ Rate fixing makes new technologies, such as wireless, appear unreasonably expensive in comparison to subsidized services; and
- ★ Proposals to submit emerging technologies, such as Voice Over IP, to the same regulation imposed on traditional services chill investment in, development of, and marketing of new services.

The 79th Texas Legislature has a responsibility to ensure that state law encourages development of a fully competitive marketplace for telecommunications. A recent federal court ruling on the role of state public utility commissions coincides with the state's Sunset Review for the 1995 Texas Public Utility Regulatory Act. This juncture offers state policymakers the sweeping opportunity to improve telecommunication services by replacing state regulation with market forces.

## THE FACTS

- ★ Texas levies the second highest state and local taxes on telecommunications services in the nation – 28.56 percent vs. the national average of 17.9 percent
- ★ State regulations that sustain cross-subsidies increase the cost of service by at least \$200 million annually
- ★ Intrastate access charges in Texas, such as for calls from Houston to Dallas, are higher than the total charge for many transcontinental calls today



- ★ The price of telecommunications equipment has declined by more than 50 percent since the federal government issued a final decision allowing competitive pricing
- ★ Long distance rates have fallen 68 percent since telephone carriers were allowed to compete with AT&T in 1984
- ★ Intrastate long distance charges have only fallen 56 percent since 1984 because states continue to regulate prices and competition
- ★ Inflation-adjusted wireless prices fell 40 percent during the past 6 years since the federal government allowed the number of providers to increase from two to at least six per market
- ★ There are almost as many Texans using wireless today as there are using regular wired telephone lines (11.3 million vs. 12.5 million)
- ★ Texas broadband subscribership has increased 12-fold since 1999

## RECOMMENDATIONS

- ★ Reduce state taxes and fees on telecommunication services
- ★ Eliminate state regulation of prices for telecommunication services
- ★ Eliminate all state regulations pertaining to quality and delivery of services
- ★ Eliminate cross-subsidies – regulations that reduce the cost of some residential services while inflating the cost of other residential and business services
- ★ Allow price of service to reflect the cost
- ★ Allow competition to determine the level of sustainable telephone rates
- ★ Restrict universal service to low-income households and fund universal service through general tax revenues or a fixed monthly charge on telephone bills
- ★ Eliminate state requirements for tariff filings
- ★ Refrain from taxing the Internet or new technologies, such as Voice Over IP

## RESOURCES

- *Principles For Texas Communications Law* by Raymond L. Gifford and Adams Peters, Texas Public Policy Foundation, March 2004 (<http://www.texaspolicy.com/pdf/2004-03-22-telecom.pdf>)
- *Texas Telecommunications: Everything's Dynamic Except The Pricing* by Robert Crandall and Jerry Ellig, Texas Public Policy Foundation (Forthcoming 2004)