

MBA 503 Economics Component Case 3

Due: Monday 11/19/01

~ Article #1 ~

USA Today  
06/18/2001

### **Public pays price as Baby Bells stifle competition**

Consumers hoping for the day when they might enjoy the fruits of local telephone competition got another blow with the demise of PSINet. Last week, it announced that it would likely file for bankruptcy protection, and this week, it gets delisted from Nasdaq.

The Ashburn, Va.-based company offers competitive high-speed Internet access over local phone lines. But it, like many other "digital subscriber line" firms, has crashed in recent months. That leaves customers with few choices other than their good old local Baby Bell monopolies, which control about 87% of the once-competitive DSL market.

This is just a microcosm of a much bigger problem for consumers. Despite a 1996 law designed to break open the local Bell monopolies, little competition has emerged. And where it did show promise, such as the DSL market, the Bells hobbled it. Result: Consumers pay more, and quality suffers.

This sorry state of affairs has prompted some states to consider a radical solution: break up the local Bells to foster competition. But in Washington, lawmakers are looking to reward the local monopolists.

The Bells say it's not their fault that many DSL firms had lousy business plans or were slammed by tough economic times. While some DSL firms have themselves to blame, the Bells helped others along, using their control over the wires and switches making up the phone network to hamstring companies that need access to that network to compete. A sampling:

- The Federal Communications Commission found that Verizon, the local Bell serving mainly the Northeast, almost always processed orders for its own Pennsylvania customers in a timely fashion last year, but did so for competitive companies only about 20% of the time. Verizon says the comparison isn't fair and it's better now at processing DSL orders.
- Kentucky ruled last November that BellSouth harmed a DSL competitor in the state by providing "preferential and discriminatory service to itself."
- Washington state this month ordered Qwest, the local Bell serving the Northwest, to give AT&T access to its equipment. AT&T had complained that Qwest, among other things, padlocked equipment boxes to "frustrate competition."

The effect: Struggling competitors have to spend time and money fighting with the Bells instead of winning new customers.

Given such Bell intransigence and the general lack of competition, several states are now wondering whether breaking up the Bell empire would bring needed consumer choice. The hope is that a separate hardware company would have no incentive to deny network access to competitors. And the breakup of AT&T quickly resulted in healthy competition for long-distance service.

But the idea has little chance of gaining traction. Pennsylvania's utility commission considered "structural separation" and was buried under an avalanche of Verizon lobbying. And in Washington, lawmakers wooed by aggressive Bell lobbying are looking the other way. A bill to be introduced this week by Rep. Billy Tauzin, R-La., would, in fact, loosen rules on the Bells, letting them provide long-distance data service without first opening their markets.

Until somebody faces up to the fact that the local Bell monopolies won't go willingly into a fair fight, consumers will be left with higher bills and no real choice.

~ Article #2 ~  
USA Today  
06/21/2001

### **FCC: Wireless competition thriving**

WASHINGTON (Reuters) — Competition in the wireless telecommunications sector is thriving, while costs continue to fall, dropping 25% last year, according to a new report issued by the Federal Communications Commission Wednesday.

Now more than 90% of consumers have a choice of at least three wireless carriers, up from 78.3% in 1997, and almost 12% of Americans have seven or more choices, the report said.

"Competition and deregulation have resulted in lower prices and increased diversity of service which in turn has stimulated rapid growth and demand for wireless services to substantial consumer benefit," said Tom Sugrue, the head of the FCC wireless bureau.

Meanwhile, the average price per minute for mobile telephone service dropped to 21 cents last year from 28 cents in 1999, from a peak of 58 cents in 1993, according to the annual report that is sent to Congress.

"We expect prices will continue to come down," Sugrue said at the FCC's monthly open meeting where the report was detailed.

The mobile telephone sector earned revenue of more than \$52.5 billion last year, up from more than \$40 billion in 1999 while the number of subscribers soared more than 27% to 109.5 million in 2000 representing 39% of Americans having a mobile phone, the report said.

Additionally, the average number of minutes consumers used each month last year soared almost 38% to 255 from 185 in 1999, off a low of 117 in 1997, according to the report.

Six providers have built nearly nationwide networks through acquisitions, mergers, and license swaps, including AT&T Wireless Group, Cingular Wireless, Nextel Communications, Sprint PCS, Verizon Wireless, and VoiceStream Wireless.

That prompted the nation's biggest wireless phone company to again urge the FCC to eliminate the cap on how much spectrum each company can hold in a particular market — currently 45 megahertz in urban areas and 55 megahertz in rural areas.

"The high level of competition is more fuel to the argument that there's no need for a spectrum cap," said Jeffrey Nelson, a spokesman for Verizon Wireless. "Artificial constraints might be important when choices customers have are limited but this is a thriving healthy vigorous competitive marketplace."

The issue will likely be discussed up by the FCC later this year, Sugrue has said in the past.

At the same time, the industry and FCC is grappling with a rise in complaints ranging from consumers not being able to place a call to calls being dropped in the middle of a conversation, Sugrue said.

"The bar has been raised substantially" for quality service, Sugrue said. "It is something the industry needs to address" although he said the FCC, lawmakers, and the industry are trying to avoid imposing regulations to resolve consumer complaints.

In the fledgling market of mobile data services, the FCC report said there has been a drop off in one-way paging subscribers, which is being replaced by two-way, short-messaging services.

Additionally, four of the seven wireless companies said they were offering mobile Internet service with a combined 2.5 million subscribers.

## Assignment

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1. Carefully explain the changes in market structure that are taking place over time in the two markets described in the articles. Specifically, are they becoming more competitive or less competitive? Given these changes, what might happen to the pricing strategies employed by firms in these markets?
2. Would you consider these markets to be “natural monopolies”? Explain why or why not.
3. The markets for wireless phone service and DSL service have many things in common. Despite these similarities, the two markets appear to be moving in opposite directions in terms of level of competition and success of new firms. Explain the factors involved in each market that make them similar and the factors that may be causing these different outcomes.