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THE WALL STREET JOURNAL

MANAGER'S JOURNAL / By David C. McCourt

The Telecom (Better Late Than Never) Revolution

IS IT POSSIBLE that, eight years after the landmark 1996 Telecommunications Act was passed, federal regulators are finally understanding what the telecommunications revolution was supposed to be about?

Recent evidence is encouraging. In November 2004, the Federal Communications Commission ruled that Vonage, one of the leading providers of telephone services over the Internet, or Voice over Internet Protocol (VoIP), was exempt from the usual labyrinth of state regulation because it clearly offered an interstate service. The news about Vonage was preceded by an October rule letting telephone companies construct a fiber-optic network within 500 feet of a home without having to share it with competitors. At the same time, the FCC announced that electricity providers could offer Internet service over their power lines.

Collectively, these decisions signal a clear retreat from nearly eight years of regulation that, in various ways, undermined the promise of the 1996 Telecom Act. The Act was supposed to usher in a great new era of competition and innovation. Indeed, hundreds of telecom companies, including three I started myself, burst upon the scene, determined to reinvent the way customers bought and received communications services.

What all of us discovered is that while the legislation opened the playing field, the regulators were still operating with old assumptions about what telecommunications meant and how customers could use it. Even though the very nature of telecommunications had changed, the world of Washington regulation hadn't kept pace.

In effect, for much of the past eight years, the FCC has been regulating the wrong industry. If regulators are now seeing the light, they deserve applause. But the dashed promise of telecom reform ought to be a cautionary tale about what happens when government tries to regulate an industry evolving faster than even its leading participants recognize.



It's worth recalling that until 1996, the telecommunications industry still existed largely as two separate groups of powerful local or long-distance phone providers, the relics of Judge Harold Greene's break-up of the Bell monopolies in 1984. The 1996 Telecom Act sensibly wanted to make it easier for new entrants—including wireless providers and cable companies—to enter local markets to provide service, and to let the local companies return the favor by offering long-distance and video services.

But as the Act was implemented, it was clear how little the FCC understood how quickly the landscape was changing. Although they let competitors enter what had once been separate monopolies, they continued to maintain artificial boundaries between services. They created new layers of regulation, setting up separate rules for local phone, long distance, and cable activity, even when all three were offered by the same company.

So stuck were they in the mindset of treating each type of telecommunications as a distinct service, they didn't recog-

nize the most far-reaching change taking place right under their noses: the creation of fiber networks that could deliver phone, data, or video services over a single network. These new networks instantly erased the distinctions among phone calls, e-mails, and episodes of "Sex in the City." All of it could be transported into the home across the same pipeline.

Yet regulators—along with many of the telecom providers themselves—proceeded as if they were blissfully unaware of this shift. The regulators, championing the idea of competition, continued to tinker with new rules and prices allowing cable and phone providers to gain access to someone else's network. Meanwhile, many of the largest providers were paying inflated prices to buy up cable and wireless companies, thinking that simply combining different products under one corporate umbrella without the efficiency of one network was the answer. They were wrong.

Both regulators and, more surprisingly, the industry giants themselves were so absorbed in the ramifications of "unbundling" the old local monopolies,

they missed the fact that *bundling* services onto one network was the essence of the telecom revolution.

In fairness, most of the advocates of "telecom reform" didn't recognize this either. Astonishingly, the 1996 Telecom Act makes only two brief mentions of the Internet. Today, of course, the Internet is the driver of residential telecommunications, making it possible for phone calls, music, movies and Web pages to be delivered over a single network to the home.

For such a system to work, the companies that build or own their own networks need to be free to redefine what telecommunications means without running the gauntlet of regulations, rates, and rules that governed traditional compartmented services like voice or video.

Customers seem to have learned this quickly. Today they demand packages that combine wireless phone service with video on demand and a flat rate for long distance—all on a single bill from one company. So long as there are high-speed networks that can deliver these packages, this is the future face of telecommunications.

The good news is that the FCC may finally understand this and stop trying to establish the structure of the industry from Washington. And it won't be soon enough. Before long an aspiring entrepreneur will sell video over the Internet just as Vonage and others are now selling voice over the Internet, reconfiguring the boundaries of telecommunications all over again.

Mr. McCourt is the chairman and CEO of Granahan McCourt Capital. He founded the first competitive phone company in the U.S., Corporate Communications Network, as well as telecom provider RCN Corporation.

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