Investing in America's Future: Problems and Prospects in Deploying Broadband

Remarks by
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at the Economic Strategy Institute
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I appreciate very much the Economic Strategy Institute organizing this forum on America's broadband future . . . and for allowing me the opportunity to offer BellSouth's perspective on that future.

I'm pleased you're all here. And I'm sorry Bill Gates decided he'd rather testify before the Senate Judiciary Antitrust Subcommittee than come to be with us here at lunch. Then again maybe he didn't have any choice.

And believe me - I can empathize with Mr. Gates because when the federal government decides to help you with your business - you had better give them your attention - or run the risk of suffering all the consequences.

The telephone industry for years has had the government as a full partner. That's not a complaint - just a statement of fact. Communications infrastructure is so critical to a vibrant economy – and so capital intensive – that that the government understandably has had a strong and compelling interest in what we were doing - how we were doing it - and ultimately what we charge for it.

Contrast that with the short - but successful history of the computer industry - which has to this point stayed as far away from the hand of government as possible - to the point where Silicon Valley would be under water if it got any farther away from the nation's capital.

When you look at these two industries and how they originated, it's not hard to understand how there's been a lot of miscommunication between the two up to this point in our history.

The one, telecommunications, regulated at the state and federal level down to being told the useful life of any one piece of the network.

The other - the computer & information industry free to pursue their business with few if any government strings attached.

And now the two bound together in a society increasingly tied to the latest in information technology. Technology that's critical to this country if we are going to continue to lead the world's economy and vital to the necessary leaps in productivity to sustain this incredibly long business cycle.

It is going to be a New World. In fact, it seems to be a New World on almost a daily basis.

And that means that many of the old ways of our industry are going to
have to change if we are going to survive in this new age.

Which brings me to investment. Or as we call it when we decide the efficient use of capital in BellSouth - resource allocation.

Because that's really what managers are all about, when you get right down to it.

How are we going to use the capital that our shareholders have placed under our stewardship to grow our business in a profitable way?

How can we provide a competitive return to shareowners and do it in a way that accomplishes the social good that the government expects - and the private good that the computer industry expects?

It used to be - 15 years ago - when people in the telephone industry discussed investment - there weren't a lot of choices. The capital on hand went into the wireline telephone business. Then just about the time of divestiture along came another choice - wireless communications (and thank goodness) - much less regulation.

It was really a new day for telephone companies - the opportunity to build telecom systems without the stifling hand of regulation at every turn.

We liked it. And we built it quickly. And the customer liked it. It seemed to be a pretty good model.

And then along came PCS. And more opportunity and freedom. And gradually international opportunities were available and they became part of the mix.

And then Internet access.

And now managed data networks. And mobile data networks. And video services. And information services.

And suddenly it's not so easy anymore to decide where to put that capital our shareholders entrust us with.

You know what? That's a good problem to have - if you think you are good at what you do and your customers seem to like how you do it.

It's a good problem to have.
So if BellSouth wants to deliver Wall Street and our shareholders the consistent and double-digit growth they expect. Where should we invest? Will it be the same place that regulators want us to invest?

Will it be where the computer industry wants us to put our capital?

Contrary to what many in Silicon Valley write about us . . . think about us or say about us . . . And they say plenty.

Regardless of any disparaging remarks from that particular camp . . . the fact is . . . we on this side of the communications industry can figure out that Internet data growth looks a lot more exciting than voice traffic growth.

Voice traffic growth doubles every twelve years; . . the Internet, almost every quarter.

We want a share of the Internet pie; we expect to get it. The question is how quickly and whether we get there quickly enough.

I’d like to share with you our basic understanding of the situation.

First, communications and computers aren't just technically converging in data networks like the Internet . . . the industries increasingly depend on each other for growth -- a natural result of this marriage in information technology.

For the computer industry, this means they are increasingly dependent on networks as an avenue of growth, as evidenced by how the Internet jump-started their financial performance.

Back in 1993, the computer business was facing a five-year stock market slump. Between 1988 and 1993, the average stock price of the top computer companies actually dropped 36 percent. And this drop occurred as the Standard & Poor's 500 grew by 120 percent.

Then, along came a little thing like browsers which made the World Wide Web accessible. Suddenly, people had a reason - or an excuse - to upgrade their computers.

The computer business took off like a rocket.

Since 1994, the stock price of the top 50 U.S. computer companies has surged by 318 percent. At the same time, incidentally, the S&P rose 143 percent while the index for the top 50 telecom companies climbed a
scant 78 percent.

So the first point is that when computers became married to communications networks - especially through the Internet . . . the wedding produced amazing growth in the computer industry.

Second, it's pretty clear to us that - even as the Internet becomes more important to the computer industry's future -- the Internet will soon outgrow the capabilities of the public switched telephone network.

Until now, those technical capabilities of personal computers, modems and the Internet itself have enabled most users to get pretty much everything they wanted through dial-up 28.8 Kps connections over standard, . . . voice grade telephone lines.

But we don't think that will continue - simply because the next generation of Internet applications will require substantially more bandwidth than can be had over a regular analog telephone line.

If the Internet is to continue to fuel rapid growth in the information sector - and growth in the economy more generally - telecom carriers will have to deliver much bigger, faster data pipes at prices that consumers and small businesses can really afford.

Bill Gates, Andy Grove, and others in the computer industry have been telling us this for some time. They understand that on-going improvements in personal computers and prepackaged software alone won't do the trick. They understand that bandwidth is imperative. We couldn't agree more.

We also understand that we'll have to work more closely with computer manufacturers and Internet service providers to make the web more friendly and valuable to consumers.

We have some efforts underway along these lines.

We're pleased to be working with Microsoft, Intel and Compaq through the Universal Working Group on a framework for digital subscriber line (DSL) standards. Our recent agreement on the DSL Lite prototype is a breakthrough that should allow us to avoid many of the problems that slowed delivery of ISDN to market.

Our aim is to use this technology to offer residential customer an easily installed high-speed connection of 1.5 megabits at a widely affordable rate beginning later this year. If we succeed, ADSL will give Internet
service providers and users the bandwidth they need to take the Internet to another new level. The appearance of a widely affordable 1.5 megabit ADSL connection will hasten the deployment of high-speed internet applications that we have been hearing so much about for so many years.

In any case, the DSL Lite cooperation shows how the computer and communications industries can work together to advance broadband.

As to BellSouth's own broadband efforts, I should also point out that we are doing more than you might think. We have already installed 150 . . . frame relay data switches, and over a dozen ATM switches, and we're continuing to install more.

In order to improve service delivery of managed services, unbundling applications, and computer infrastructure - - we have created a managed network services alliance with EDS.

In 1998, we will invest over $7 billion to grow our business.

Of that $7 billion . . . about $3.4 billion will be spent on our local, wireline telephone networks -but not as much as you would like to keep up with the new broadband networks.

What then will it take to spur billions more investment in broadband capacity?

Well, Walter Wriston, former Citicorp Chairman, often said which seemed to go down pretty well: "Capital goes where it is welcome, and stays where it is treated fairly."

And, it seems to me that there are two things that really need to be done -- to ensure companies can make the kind of investment that the computer industry wants, and the American public and our economy needs.

The first thing regulators need to do is declare a "regulatory moratorium" – before they saddle tomorrow's networks with the same old rules and regulations.

And, the second step regulators need to take is to eliminate rules that restrict the ability of telecom carriers -- including my own company -- from using our networks anyway that serves the customer.

This country has well over $300 billion -- one-third of a trillion dollars --
invested in communications plant and equipment.

The last thing we need is the government rationing the use of that resource. We need to encourage network use -- not restrict it.

The more we do with our network, after all, the lower the cost of providing service to individual customers. The broader the universe of customers and traffic we have, the more we can spread our network's costs and the lower prices will become.

Too many government rules directly or indirectly have the impact of curbing how much traffic can transit our networks. Or still prevents us from working directly with manufacturers to upgrade our networks.

It's as if the government tried to restrict how efficiently United Airlines can use its planes, how much natural gas Colonial Pipeline can pump, or how CSX can use its trains.

A "regulatory moratorium" on advanced networks and removing prohibitions on the use of existing networks -- these twin measures would spur more investment, accelerate innovation, and unquestionably contribute to the economic welfare of all Americans.

If America's computer and software companies were under the kind of regulation BellSouth contends with, where would this country be?

Suppose, there was another FCC in Washington -- a Federal Chip Commission. And suppose this commission decreed that Intel should introduce a new generation of chips, but could only earn the prime rate plus four or five hundred basis points.

Believe me. Federal law would have trumped Moore's Law long ago.

And, when I talk about artificial regulatory restrictions on network use, I include all the limits on our ability to carry interLATA traffic -- including data.

Just last month, the World Trade Organization's "Agreement on Basic Telecommunications" went into effect. That Agreement is supposed to reflect today's commercial realities -- seamless networks, global markets, and the worldwide Internet.

Meanwhile, however, back in Washington the regulators are debating whether or not BellSouth can compete in just South Carolina!
The regulators seem wedded to a system of "no-trespassing zones" which was cooked up in 1982 -- four years before the personal computer debuted -- and which was based on the switching technology of the 1970s.

It's almost as if the computer industry were forced to deal with punch cards -- or had scores of regulators worried that technology might bring competition and change.

I believe America needs to be as pro-competitive and progressive as the rest of the world. America's regulators have to be prepared to take the risk of competition.

Our free enterprise system depends on competition and customer choice. We ought to try that same approach in telecommunications -- and stop trying to inhibit new services, new jobs, and new investment.

As Congressman John Dingell said yesterday:

"The current Chairman of the FCC confronted a wonderful opportunity. He could repair the extraordinary damage done by his predecessor. He could sweep away barriers to competition, unleashing the forces of free enterprise, and begin the job of building the much-maligned 'bridge to the 21st Century.'"

I couldn't agree with Congressman Dingell more. Like him, I also wish Chairman Bill Kennard well. I believe the FCC's decisions in this area over the next year or two may prove to be far more consequential than we might think.

Right now, the computer industry is obviously riding pretty high. The run up in U.S. computer stock prices since 1994 has created nearly $900 billion in shareowner wealth.

But how long will the good times roll? Let's remember, a lot of that shareowner wealth reflects future expectations. And, a lot of those expectations are premised on a belief that our telecom networks will keep pace with Internet.

My message here, today, is that none of this is a given. Whether our networks keep pace with users needs -- and, how fast that happens - will depend heavily on the willingness of the regulators to contain their appetite for more regulation.
As a communications executive, I certainly don’t want to see the computer "bubble" or the telecommunications "bubble" burst.

I see our futures securely bound together to our friends - and critics -- in the information technology sector.

We create value for each other. We can benefit from the demands created by digital revolutionaries. We will be dependent on the whole complex of Internet products and services.

But that relationship runs both ways.

After all, we’re all in the same digital boat - and everyone in that boat has to cooperate and pull their own weight.

Some say why bother.

BellSouth is regulated. Other suppliers of digital infrastructure are not. They say regulation is our problem. Live with it.

Sometimes, I wonder if that’s right.

Can the FCC regulate the supply and data capabilities of telecommunications barriers without impacting the demand for software, computers, components and the whole array of Internet services?

Can regulators create disincentives for network investment without adversely affecting companies that use those networks to create value for their customers and shareholders?

Merely asking the questions is to answer them.

There is much that our industries can do together to hasten deployment of broadband.

Our work on ADSL is a beginning.

Work by both traditional and non-traditional suppliers for long term broadband solutions is another critical step.

But however much we can do together . . . there are some basic things we simply cannot do.

We cannot unilaterally redraw the regulatory environment to encourage investment in broadband.
To realize our expectations of a digital future, we need to persuade regulators to avoid imposing an outdated and largely discredited regulatory model onto the Internet.

Instead, we need to convince regulators that the benefits of not regulating new data service like ADSL - increased investment, better jobs, and more rapid innovation - that by not regulating those will far outweigh any conceivable cost to consumers.

If we are to make that case, however, we will need the active support of our partners and competitors who provide other parts of the digital infrastructure.

I want to tell you that we look forward to that debate.

Thank you.

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