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# Evolution of telecommunications policy in Maine

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*At the Pure '93 Conference last January, Charles Colgan and Richard Silkman discussed Maine's recent policies on telecommunication. Charles Colgan, former state economist, provided the staff support for Governor Brennan's report "New Directions in Telecommunications Policy." Richard Silkman, as Governor McKernan's Director of the State Planning Office, was often the lead spokesman on telecommunications policy for the current governor. Their analysis of the telecommunications policies of these two administrations reveals a surprisingly common core over the entire period since the AT&T divestiture.*

### Revisiting the "New Directions" report

*by Charles Colgan, University of Southern Maine*

While I have spent most of my career as an economist, part of me is a historian. Historians are known for rummaging around in musty, old documents, so in preparing this presentation, I went back and dug out "New Directions in Telecommunications Policy" (1985), which is now seven and a half years old. It was a little disconcerting to read what I wrote that long ago. It is said that those who live by the crystal ball are condemned to eat glass; and I will have to munch my share today. But before I do that, I will describe the background that led us to identify what we thought would be the issue about telecommunications and economic development. I will then comment about what actually happened.

In March of 1984, Governor Joseph Brennan signed an executive order creating a study group to examine the implications of the AT&T breakup for Maine. This was just three months after the divestiture went into effect. The group consisted of the director of the State Planning Office, the director of the Finance Authority of Maine, the Commissioner of the Department of Agriculture, the director of the State Development Office, the Public Advocate, and three legislators. There were emerging concerns, particularly in the business community, that Maine was not well positioned to take advantage of the revolution in telecommunications. When people discovered that we were looking at telecommunications, everybody -- the telephone companies, the users, virtually anybody who had an interest in telecommunications -- wanted to be on the committee, so in addition to the task force, we created a technical advisory committee of some sixty people from throughout the state. The technical advisory committee, which essentially dealt with many of the technical issues, met in smaller groups periodically throughout the 18 months of the study.

The issue that dominated the discussion was rate-making in a competitive environment. Much attention was given to the access charge issue. Rates were just beginning to incorporate responses to competitive forces. There was a substantial amount of concern about competitive by-pass. The debate could fairly be characterized as a question of economic development, and the necessary investments in modernization, versus universal service. The choice seemed to be whether everybody could have a phone versus whether businesses could have the necessary

technology to run their operations. There was also concern about the speed of modernization: Was Maine getting its share of modern telecommunications quickly enough? Should state policy encourage or discourage competition? And there was concern about the role of telecommunications in economic development. What were the opportunities? What were the constraints? What should state policy be? Finally, there was a large issue concerning the public telecommunications infrastructure. Together, state government and the University are by far the largest telecommunications users in the state.

The report dealt with a number of these issues. It laid the ground work for many important ideas that came later. The report was very generally encouraging to competition. The members of the task force saw increased competition in telecommunications as the most important development in telecommunications policy, which over time would help Maine. I should hasten to add, however, that the debate about modernization versus universal service led to some real debates within the Commission. Although the report was clearly pro-competition and favored the evolution of competition, the three legislators on the task force dissented. They filed a minority report that said, in essence, "Competition is great as long as it does not change much and as long as it does not threaten universal service." Thus, the debate between universal service and the evolution of a competitive modern telecommunications industry was reflected in the final report.

At that time, local measured service was also being hotly debated. We studiously avoided saying anything on the pending referendum on local measured service, but we did adopt a general recommendation that movement to marginal cost pricing was needed as the best way to ensure telecommunications efficiency.

The Task Force did make some specific recommendations. The Task Force concluded that cost minimization should be a central concern but that there may be some benefits, which are not entirely reflected in prices, that should be taken into account. A number of industries were identified for which telecommunications were very important, which included services, banking, printing and publishing, and direct marketing. The results of a survey conducted for the task force indicated that only a relatively small number of companies were actually concerned about the constraints in the telecommunications network and system, although that small number consisted of very large companies. Most companies felt that the system was adequate. By and large, therefore, the Task Force did not focus on the question of public investment. Telecommunications and infrastructure have now been essentially equated; telecommunications has frequently been called "the highways of tomorrow." But should the public be investing in telecommunications infrastructure? The Task Force said "No," that the private telecommunications industry was investing adequately. Exceptions might exist in more rural areas of the state, such as the construction of a satellite down-link at the Orono industrial park. But on the whole, the Task Force concluded that most investments were to be made by the private sector. Again, incidentally, the legislators dissented from that view. They envisioned a somewhat more activist role for public investment. The Task Force also suggested a progressive relaxation of regulatory process as competition evolved.

## Assessing the report

I would now like to assess the report's recommendations in the context of how telecommunications has evolved. First, the key concerns of eight years ago have not turned out to be at the center of telecommunications issues. There are still issues about ratemaking, and there are still issues about competition. But these did not evolve as predicted. A continuing and intensifying battle over the issue of development versus universal service really has not happened, with the one exception of the great local measured service referendum. This conflict has been relatively unimportant largely because of changes in technology and rapid declines in the costs of that technology. As the costs of technology dropped, it was much easier for modernization to take place.

There were, however, some issues where the Task Force was right on target. As a result of the Task Force, a much greater coordination and communication occurred between state government and the University in the planning of their telecommunications facilities. This coordination has not always resulted in common or shared facilities, but it has resulted in conscious decisions about when common or shared facilities do or do not make sense. A much more coordinated and rational process has guided investments by the public sector. The University's interactive television, the ITV network, grew out of a university process, and state support for that effort grew directly from the work of the Telecommunications Task Force.

The Task Force correctly predicted that the fastest growing industry in Maine would be business services. Business services has been one of the most telecommunications-dependent industries, just as predicted. The industries that were thought to be sensitive to telecommunications have, in fact, grown as a result of the investments that were made.

Of course, some issues still remain. The nature and extent of within-state competition remains an issue for regulators, as does the speed of modernization of Maine's telecommunications infrastructure. While modernization has been dramatically faster than the Task Force anticipated, a question remains about how fast it can or should be.

The Task Force set the stage, I hope, for what has been a productive discussion about telecommunications policy. It is a pleasant surprise to return to telecommunications a few years later and see that people are still talking about the same issues.

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