



Federal Communications Commission  
Office of Plans and Policy  
1919 M Street NW  
Washington, DC 20554

## OPP Working Paper Series

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The FCC  
The OCCs  
and  
The Exploitation of Affection

June 1985

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THE FCC, THE OCCs AND THE EXPLOITATION OF AFFECTION \*/

by

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\*/ The views expressed are those of the author and should not be construed to reflect those of the Federal Communications Commission or any other member of its staff.

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Protectionists are not prone to wait passively for overrestrictive rules to fall into their laps. Rather, a central element in their strategy is persistent expenditure of money and effort to change the rules in ways that favor their cause, and resistance to any attempt to reduce impediments to effective competition.

William Baumol and  
Janusz Ordover



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## I. Introduction

The idea that protecting competitors protects consumers and competition is one that few disinterested members of the antitrust bar and even fewer economists would support. Competition is, in fact, highly antithetical to the interests of competitors in that it dissipates profits. Indeed, that is largely the point of competition. Claims by competitors that government action is necessary "to promote competition" should thus be viewed with great skepticism and treated in the same manner as claims by competitors that a rival is pricing monopolistically. 1/ Arguments for such action often simply amount to unsupported (and unsupportable) assertions that some form of cartelization is necessary to promote competition. 2/ The way to promote

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1/ As Morris Adelman argued many years ago (see Yale Brozen, 1974), since truly monopolistic pricing benefits rival firms by providing profitable opportunities for expansion of output, allegations of monopoly pricing behavior by a firm's rivals should, in general, be taken as evidence that the accused is actually behaving competitively rather than monopolistically. That argument is particularly compelling when competitors' complaints stem from price cuts rather than price increases. Competitors have a natural interest in tying the hands of those who compete for consumers' favors. On the same reasoning, government actions that competitors claim are required to promote competition are liable to be anticompetitive, particularly when their avowed purpose is to increase the profits of particular firms by distorting pricing and investment decisions in an economically inefficient manner.

2/ In general, cartelization refers to any activity designed to divide trade among rival sellers on a basis other than competition and voluntary exchange. Thus, for example, regulatory allocation of customers among competitors would clearly represent a cartelizing activity by the government and the antithesis of true competition. Regulatory pricing policies protecting competitors from price competition have the same cartelizing effect as direct allocation of customers by the government. Such policies are predatory in effect, foreclosing markets to firms that regulation prevents from competing by price. As Circuit Judge Robert Bork (1978, p. 348) notes in his treatise on antitrust, crippling competition through the abuse of governmental processes "is a useful tactic against any size firm, regardless of relative reserves, for it may be worth the price of litigation to purchase delay...In such cases, successful predation does not require that the predator be able to impose larger costs on the victim, that the predator have greater reserves than the victim, or that the predator have better access to capital than the victim. No other technique of predation is able to escape all of these requirements, and that fact indicates both the danger and the probability of predation by misuse of governmental processes."

competition is to allow competition. The idea that competition must be destroyed to save it is problematical to say the least. 3/

Recently, GTE Corporation released a summary of a report it paid the Booz, Allen and Hamilton consulting firm to prepare. 4/ The report summary presents a forecast of how certain carriers will fare financially during the period 1985-1989. While Booz Allen draws no policy conclusions on the basis of its forecast, GTE concludes on the basis of the report's projections that "the prospects for effective competition in the long distance market are in severe jeopardy." 5/ Interestingly, the Booz Allen personnel who wrote the report specifically disavowed that conclusion under questioning by OPP staff. Their position was that their report was incapable of resolving questions about the prospects for effective competition. 6/

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3/ Competition is a process of discovery and adaptation, not a particular distribution of market shares. Any configuration of market shares may be consistent with effective competition or noncompetitive performance. Where competitive processes are permitted to operate, market shares are determined by competition. Where regulation is in effect, it determines market shares. Whether competition is "effective" depends primarily on the degree of resource mobility in the economy. It has little to do with the distribution of market shares prevailing at any point in time, particularly when shares are determined by regulation rather than competition.

4/ "Prospects for Major Facilities-Based Other Common Carriers," March 18, 1985.

5/ Statement of Edward C. Schmults, GTE Senior Vice President and General Counsel quoted in Telecommunications Reports, Volume Fifty-One, No. 12, March 25, 1985, p. 1.

6/ We note, however, that if the report meant what GTE says it means, that would be fully consistent with testimony the Booz Allen firm offered on AT&T's behalf in US v. AT&T. In that case Booz Allen's position was that divestiture would impose huge economic penalties and that telecommunications services would be far more efficiently provided by a single firm. See testimony of M. Schwartz, U.S. v. AT&T, Defendant's Third Statement of Contentions and Proof (March 10, 1980). If single-firm organization is more efficient, single-firm organization is clearly the result one would expect an effective competitive process to produce. Indeed, one measure of effective competition in that circumstance would be whether the competitive process resulted in survival of a single firm. It would certainly then be no surprise if, given natural monopoly elements, rival ventures were to prove unprofitable.

The objectives of this paper are twofold: The first objective is to provide a brief critical commentary on the Booz Allen report focusing mainly on its conceptual shortcomings. Since the actual report has not been released by GTE, we are unable to replicate and thereby verify Booz Allen's analysis. That is, however, not as serious a matter as it would normally be given the report's essential economic irrelevance. Consider that it is of little import whether a particular set of numbers is summed correctly if it is the wrong set of numbers and the required operation is not summation. 7/

The second and more important objective of this paper is to provide an economic framework within which to analyze GTE's (and others') attempts to exploit the government's affection for competition. To this end, we first characterize "economically optimal" government intervention in the marketplace and then describe a number of circumstances under which nonoptimal intervention is likely to occur. An important potential source of governmental failure rests in the fallacious notion that deregulation can be permitted by regulators only when markets become, somehow measured, competitive. 8/ That notion is fallacious because it characterizes competition as a static goal rather than a dynamic process. Competition is a means, not an end. Failure to draw and act on this important distinction

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7/ On the other hand, if one were inclined to base policy on the report (as we are not), it would surely be foolhardy to do so without actually seeing it.

8/ This is, of course, the position taken by most of the OCCs. Firms whose profitability can be enhanced by regulation are naturally loathe to see the source of their profit opportunities disappear. Indeed, they can be expected to proselytise for maintenance and expansion of inefficient regulatory policies that provide profit opportunities for unregulated firms. According to William Baumol and Janusz Ordover (1985, p. 258), "There is no doubt that potential and actual entrants (such as MCI) have a strong incentive to rigidify the price responses open to an incumbent who is confronted with newly emerging competition. It seems clear that the staunchest advocates of full-cost pricing have been firms anxious to hobble their disquietingly effective rivals."

means that policymakers run the risk of creating a wholly artificial industry structure based on inefficient pricing and entry. 9/

## II. Booz Allen Analysis

Booz Allen's financial forecasts are based on Booz Allen's judgments about what future demand for a particular subset of carriers will be. Given these assumptions about future demand, Booz Allen estimates the capital investment required to meet projected demand and then calculates rates of return on an annual basis for the next four years, assuming capital equipment is utilized at rates implied by the demand assumptions. 10/ This exercise leads to the conclusion that certain OCCs will lose money over this period.

Booz Allen claims to have based its analysis on assumptions that overstate likely profitability. Principal among these "conservative" assumptions is that the OCCs will capture all growth in the market over the time period covered by the study. How "conservative" this assumption is depends on the frame of reference. Assuming these carriers capture all growth in the market is equivalent to assuming that AT&T's quantities sold remain constant. Assuming no growth by AT&T is more conservative than assuming positive growth. On the other hand, AT&T's historical quantities are by no means sacrosanct under competition. MCI claims it is the low cost supplier (others make the same claim for themselves). If that is so, what prevents it

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9/ For a European view that that is precisely what is happening in the United States, see Bernhard Wieland, "Problems of Gradual Deregulation - What Can European Authorities Learn from U.S. Telecommunications Policy?" Deutsche Bundespost Diskussionsbeiträge zur Telekommunikationsforschung Nr. 9/August 1984.

10/ Booz Allen's techniques for estimating capital requirements are described in the vaguest terms in the report summary released by GTE. Their validity thus remains an open question. Note that a firm can substitute leased capacity for capital investment and reduce its so-called "requirements."

(them) from taking more business away from AT&T? "No growth" is clearly not as conservative as "negative growth".

Furthermore, the assumption that the OCCs capture all growth in the market is not necessarily a conservative assumption if the rate of growth of the market is itself understated, as it would appear to have been by Booz Allen. The future is unknowable in advance, but Booz Allen's demand growth assumption is less than the 10 percent that has usually been assumed for purposes of forecasting in this industry. 11/ Booz Allen casts projected OCC growth in terms of a compound annual growth rate (35 percent) that makes it sound as if the OCCs are growing by leaps and bounds (which, as a group, they apparently are), but that actually disguises an annual growth rate assumption significantly below that made by most analysts. Since projected demand affects both revenues and costs, 12/ Booz Allen's profitability forecasts would presumably look a little different and less favorable to the position GTE wants to espouse if a higher market growth rate were assumed. The same thing would be true if one of the OCCs dropped out of the market. An analysis of the sensitivity of Booz Allen's results to such an occurrence is conspicuous by its absence in the report summary.

On the cost side Booz Allen (1985, p. IV-3) claims that if the OCCs achieved the rate of growth Booz Allen hypothesizes, they could be effective competitors with competitive unit costs by 1989. But this analysis assumes that capital is a free good to the OCCs, that is, that its economic cost is zero. That it is legitimate to ignore the cost of capital in a relatively capital-intensive industry like the long-distance business is highly questionable. What Booz Allen has actually shown is just the opposite of what

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11/ Higher growth rates have also been forecast. For example, Business Week (1/9/84) projects demand growth on the order of 14 percent per year.

12/ Per-unit costs are assumed to decline with increases in output.

it claims--the OCCs would clearly not be competitive in 1989 if they were required to cover capital costs in that year (which they are not).

Under Booz Allen's assumptions, AT&T and the OCCs will have comparable costs in 1989, but AT&T will cover its costs, including costs of capital, while the OCCs will not. If a firm cannot cover its costs over the long run, it is not competitive, by definition. That the (n)th firm has costs comparable to the (n-1)th firm is of quite limited significance if the market is not big enough to support n firms. Moreover, Booz Allen's analysis actually suggests that AT&T's costs will, in fact, be lower than the OCCs' costs four years hence because economies of size are postulated. If the OCCs grow more slowly than projected, which Booz Allen suggests is likely (indeed, that is the basis for their claim of conservatism), AT&T's costs will be lower than Booz Allen projects and the OCCs' costs will be higher.

Clearly, if all firms have the same access to productive technology and divide the market equally, all will have the same costs. But who cares? The purpose of regulation or competition is not to equalize costs, but to minimize them and thereby maximize consumer welfare. Regulatory policies that uneconomically restrict the ability of individual firms to achieve cost savings will cause costs and prices to be higher than they need be and the market to be smaller than it could be.

Since Booz Allen's forecasts deal only with the next four years, they really provide no information about the economic profitability of investments in the long-distance business. Such investments are long lived and, as Booz Allen concedes, correct evaluation of them requires a calculation of the present value of the net revenues expected to be generated over the life of the assets. Booz Allen's results are thus perfectly consistent with continued

investment in the business, since negative returns during the early years of an asset's life may be more than offset by positive returns in later years. 13/

It is quite common for new entrants to incur losses initially, the losses in essence being used to purchase increased market share. 14/ In Booz Allen's analysis, the OCCs end up with more than 40 percent of the market by 1989. That gain in share may be well worth incurring losses even for a period of several years. On the other hand, it may not if long-term losses are also expected, but that simply says that such investments are uneconomic. It provides no basis for arguing that government should intervene to make such \* investments profitable. Indeed, it is likely that current government policies are the cause of declining profits. More of the same, as espoused by GTE, will simply make matters worse and even more difficult to remedy in the long run.

While sensitive to the assumptions that underlie it, Booz Allen's conclusion about short-term profitability is in itself relatively uncontroversial. When increases in supply outstrip increases in demand by a wide margin, the natural economic consequence is a declining price. If the price declines are steep enough, all carriers could end up losing money, at

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13/ In this regard, it is significant that Booz Allen never makes the claim that given present government policies GTE's profit maximizing alternative is to abandon its network.

14/ In the computer industry, for example, Burroughs suffered losses for many years before becoming a profitable enterprise. In many "high tech" industries, huge investments are now being undertaken with no prospects for any short-term payoffs. Consider gene splicing.

least in the short run. 15/ Contrary to GTE's allegation that investment incentives are inadequate, current regulatory policies stimulate overentry, and the resultant excessive investment is one cause of low profits. 16/

A recent Wheat First Securities Research Report 17/ notes that the long-distance telephone business is already characterized by excess capacity, and that within the next four-to-five years the total capacity of the country could increase sixfold. During the same time frame, demand is forecast to increase at a rate of 10 percent per year. These forecasts together imply strong downward pressure on prices. The Yankee Group, a Boston research and consulting firm that follows the telecommunications industry, predicts a huge

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15/ Alternatively, some firms may earn positive economic profits, but the industry's average profitability will be subnormal. Note that the assets of failing firms may be acquired and profitably operated by others. A failing competitor does not imply that competition is failing. To the contrary, it suggests that competition is working. These considerations are particularly relevant in considering the plight of GTE, which paid twice book value for Sprint. That the government should bail out incompetent management is, of course, highly questionable, particularly given the existence of substitute management capable of operating sunk capital at a profit.

16/ For example, in the lead article in the current issue of the Journal of Law and Economics ("Use of Antitrust to Subvert Competition"), William Baumol and Janusz Ordover point out the inefficiencies that result from the use of fully allocated costs as constraints on the price responses of regulated firms. They (1985, p. 258) note that "insistence that such costs are the appropriate price floors invites socially inefficient entry that is elicited not by genuine cost advantages and productive efficiencies but by false profitability signals." According to Baumol and Ordover (1985, p. 255), "the evidence strongly supports the thesis that it [fully allocated cost] is a standard put forward almost exclusively by firms that were unlikely to compete successfully on the merits of their performance alone. They advocate their costing approach as a device to limit the price-cutting opportunities of rivals rendered more efficient by economies of scale and scope, by superior management, or by other legitimate sources of superiority. This is surely attested to by the frequency of cases in which full distribution has been used to argue that some prices are unacceptably low, when the pricing behavior that should most be feared by guardians of the public interest in the presence of market power is overcharging, not underpricing." (emphasis added)

17/ "The Long Distance Telephone Business," February 20, 1985.



glut of long-distance capacity in the years ahead. 18/ A recent Fortune magazine article, entitled "The Coming Glut of Phone Lines," 19/ predicts that the U.S. long-distance network will soon sextuple in size. In that same article, ex-chief executive of GTE Sprint, Dale Pilz, flatly contradicts his former employer's claims about inadequate investment incentives and the prospects for effective competition. He is quoted as saying that:

If all the recently announced building programs are carried out, first thing you know we'll have enough capacity to last this country forever.

The article goes on to explain that Pilz does not believe that all the systems will be built because competition will keep supply from outdistancing demand. 20/ But that assumes that competition is permitted to operate. Continuation of traditional fully distributed cost tariffing policies would hinder and discourage price competition. Other FCC policies subsidize entry in various ways.

### III. Implications for Policy

According to GTE, effective competition is in jeopardy because competitors (in particular, GTE) are allegedly not earning sufficient returns

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18/ See Fortune (1/7/85).

19/ Ibid.

20/ In this regard, note the "nonfulfilling" nature of Booz Allen's so-called "forecasts." If profitability is so low as to render investment uneconomic, as GTE claims, actual profitability will, in the event, turn out to be greater precisely because less investment will have been undertaken. Booz Allen can only be right if investors ignore what GTE claims is Booz Allen's message.

to make additional investments in the business worthwhile. <sup>21/</sup> Therefore, GTE advocates that the government take additional steps to increase profitability and thereby stimulate additional entry and so make the industry "competitive." The government, of course, cannot "make" the long-distance business competitive. Whether competitive market forces can be relied upon to allocate resources efficiently in this market depends primarily on basic economic conditions of supply and demand, which the government can do little to alter.

Government cartelization will not make the industry competitive--it will make the industry a cartel. In this regard, note that since the policies GTE espouses stop short of a bar on entry (the sine qua non for effective cartelization and higher profits), they will not be successful even considered on their own terms. They will not increase profits. They will increase investment and further dissipate profits. If the profits of particular competitors are a concern of regulation, then nothing short of a bar on entry will help. An entry bar poses the issue of competition versus cartelization in stark relief. It is hard to claim you are promoting competition when you are so obviously destroying it. The only difference between the policies GTE espouses and a bar on entry is that the latter would be effective. Neither is consistent with competition.

The real danger in the long-distance business is not inadequate investment, but excessive investment caused by inefficient government regulation. The solution is simple: get rid of the inefficient regulation which is causing excessive investment and let competition establish the efficient industry structure (i.e., the structure that minimizes

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<sup>21/</sup> MCI disputes this allegation. In a recently concluded damages trial, MCI sought to show that but for certain antitrust violations, it would be earning substantial profits.

costs/maximizes output). If an efficient industry structure is characterized by a small number of competitors, society might choose not to bestow on those competitors discretionary power to raise prices. 22/ The point is to have that decision based on accurate information about an efficient industry structure, not on the basis of an artificial industry structure that is the result of a regulatory rather than a competitive process.

Professor Almarin Phillips (1982, p. 23) has observed that:

Through regulation of one kind or another--legislation, injunctions, consent decrees, or regulatory edicts--the pricing and services of AT&T, the BOCs, and other non-Bell participants in the switched network can be arranged so that all are viable. That is, regulations can be formulated to preserve and protect an inefficient structure with many firms. Competition, nonetheless, is just the opposite of this.

#### IV. What The Booz Allen Report Is Really About

As the Booz Allen authors themselves concede, their analysis has no implications for evaluating competition in the long-distance business. What the Booz Allen report really involves is an attempt to exploit the U.S. government's (and the citizens' it represents) affection for competition.

To understand the nature of this anticompetitive, consumer-welfare-reducing behavior, consider that government intervention to provide competitive infrastructure in a post-divestiture environment is not a costless

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22/ Imperfections of regulation make it unclear whether consumers would be better off with imperfect competition or imperfect regulation. Many economists argue that consumers would be better off without explicit regulation of even the most highly concentrated industries. In general, the case for deregulation does not rest so much on the perfection of competition as on the huge costs of regulation.

activity. 23/ If the benefits sacrificed (i.e., the costs) exceed the benefits produced by marginal policy changes, such changes are clearly uneconomic. They hurt more than they help.

There are a number of different failure modes one can conceive under which government will fail to execute an economically optimal effort to promote competition. 24/ Externalities--consequences that decisionmakers fail to take into account in making decisions--are a well known source of organizational failure that can account for failures of both the market and governmental variety. Just as the output of a polluting factory may be excessive if the cost of dirty air is neglected in deciding how much output to produce, government intervention will be excessive in circumstances where there are significant uninternalized costs of government policies. If the costs consumers are compelled to bear by government decisions are not

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23/ The successful operation of markets generally rests on a foundation or infrastructure of legal, economic and social institutions that facilitate productive activity and exchange. Examples of providing competitive infrastructure in telecommunications include such activities as creation of a system of access charges and the establishment and enforcement of technical interface and interconnection standards. How well government carries out these activities has implications for both the viability and efficacy of competitive processes. For example, with respect to the viability of competitive processes, note that failure to implement a full-blown system of flat access charges hurts competition. Loading usage-insensitive costs into usage-sensitive prices constrains the size of the market and thereby limits the number of competitors that can operate economically. With respect to efficacy, note that competitive processes will produce perverse outcomes (i.e., outcomes that reduce consumer welfare) if artificial restraints are placed on or uneconomic inducements are offered to particular competitors.

24/ The idea of economically optimal or efficient promotion of competition is explained in Kenneth Elzinga and William Breit, The Antitrust Penalties: A Study in Law and Economics (Yale University Press, 1976). A taxonomy of governmental failure modes is given in Charles Wolf, "A Theory of Nonmarket Failure: Framework for Implementation Analysis," Journal of Law and Economics (1976).

adequately accounted for by government decisionmakers, government policies will tend to inflict excessive costs (i.e., costs that are not worth the benefits) on consumers. 25/

While we think there are compelling reasons to believe that government failures occur on this account, in the analysis which follows we shall assume that government decisionmakers accurately assess costs and benefits in deciding what to do. This assumption is analogous to assuming that externalities are not an issue in evaluating distortions in resource allocation that arise for reasons of monopoly. Here the posited failure mode is a governmental one analogous to the exercise of market power in economic markets. Fittingly, it involves a class of situations where strength lies in weakness.

V. The Exploitation of Affection 26/

The basic premise underlying the exploitation of affection argument is that government decisionmakers have a personal stake in the success of the policies they pursue, in the instant setting policies designed to promote competition in the long-distance business. If competition in the sense of a self-policing industry structure proves workable, the policymaker who has sought that outcome will look good. If a self-policing industry structure is

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25/ In his recent decision sustaining the FCC's imposition of separate subsidiary requirements on the BOCs, Circuit Judge Richard Posner chides the Commission for its failure to assess the economic costs of its policy adequately.

26/ Our exposition of the exploitation of affection argument follows the treatment by Richard McKenzie and Gordon Tullock in their college textbook, The New World of Economics (1975), Chapter 6. A more formal elaboration is given in Wilson Schmidt, "Charitable Exploitation," Public Choice, (Spring 1969). Perhaps the best (certainly the funniest) expression of the analysis has been provided by Tom Wolfe, author of The Right Stuff, in his essay, "Mau-Mauing the Flak Catchers." See Radical Chic and Mau-Mauing the Flak Catchers (1970).

not viable, the same policymaker will look bad. 27/ We assume that policymakers will have a downward-sloping demand curve for various policies designed to promote competition, that is, that they will be willing within limits (described by their demand curve) to incur costs to arrange conditions conducive to competition. Per the assumption described at the end of the last section, we further assume that this demand curve accurately reflects the benefits consumers would derive from different levels of promotional effort. 28/ Similarly, we assume that the costs of pursuing different policies more or less intensively are known (i.e., accurately measured).

A rational, consumer-welfare maximizing decisionmaker will freely choose to extend his promotional efforts until the marginal benefits of doing so are equal to the marginal costs. And given that benefits and costs are accurately gauged, this level of effort will be optimal from an economic standpoint. Any different level of effort would imply opportunities to expand economic welfare by moving to the optimum effort. 29/

In economic terms, the excess of total benefits over total costs of an activity is referred to as the "surplus value" of the activity. The exploitation of affection involves the use of tactics designed to expropriate surplus value, that is, to transfer economic benefits from the public to private firms. This expropriation is thus exactly analogous to the transfers

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27/ If competition were to prove nonviable in the long-distance business, the people responsible for breaking up the telephone system to promote competition would surely be accused of having committed a tremendously costly error.

28/ We might alternatively speak of separate demand curves for different types of policy (viz., a demand for varying degrees of direct NTS cost assignment (access charges), a demand for separate subsidiary requirements of varying degrees of stringency, and so on). For simplicity of exposition, we cast the argument in terms of a single demand curve.

29/ In areas where efforts do not go far enough, marginal benefits of going farther exceed marginal costs so that greater efforts yield net benefits. In areas where efforts have gone too far, contraction yields net benefits.

that result from the exercise of monopoly power in economic markets. Exploitation of the government's affection for competition involves the use of extortion tactics to expropriate for individual competitors the benefits consumers might derive from policies promoting competition.

The tactics for exploitation involve the use of all-or-nothing threats. Suppose an OCC comes to the FCC and makes the following threat: either you do X, where X stands for any policy change the Commission would not freely choose given its (accurate) knowledge of costs and benefits, or I will fail (i.e., go out of business). Now it may be that this firm should fail because it does not do a satisfactory job of serving consumer demands compared to other firms (i.e., is relatively inefficient), but if its failure makes it appear (or, for that matter, actually implies) that a self-policing industry structure is not viable, a policymaker with a stake in that outcome may well be susceptible to such an extortionate threat. He may thus be led to undertake actions that actually reduce consumer welfare and undermine achievement of regulatory goals, actions that would not be freely chosen absent the threat, actions that sacrifice the competitive process to prop up ineffective competitors.

How successful attempts to exploit the government's affection for competition will be depends on a number of factors, including how closely identified policymakers are with particular policy outcomes. 30/ Where there are a number of competitors, a threat by any one to fail and thus threaten competition will presumably not be very compelling. However, it could be if regulators attach importance to the survival of particular competitors and one of the chosen few threatens to fail. Moreover, as McKenzie and Tullock note,

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30/ Again it is important to stress the difference between process and outcome. The competitive process is the only method capable of discovering whether competition in the sense of a self-policing industry structure is viable.

competitors may act collusively and threaten collectively to fail. In this regard, the fact that in the past "doom and gloom" communications to the FCC from the OCCs have been jointly undertaken is of striking analytical significance. In terms of GTE's Booz Allen campaign, a number of OCCs have chosen to associate themselves with the report's conclusions and GTE's policy prescriptions.

#### VI. Conclusion

A firm does not have to possess a large market share to exercise economic power. The OCCs do not possess large market shares, but they can certainly exercise power by threatening to make government officials who have inflicted huge costs on consumers to promote competition look bad. They can do this by threatening to fail. A small market share and low profits can be assets in such an extortion campaign. They make the threat of failure more compelling and thus make it more likely that government officials will yield to extortionate demands. And as is always the case with extortionists, giving in merely encourages additional blackmail attempts.

A correspondent in Business Week magazine (3/25/85) recently wrote as follows:

What we are now seeing is the market test of a still-unproven proposition: that one carrier's size and economies of scale do not preclude uncontrived competition in the long-distance telephone market. If the other carriers worry that they will, what are we, the public, to make of it all? We can be sure that the FCC and Justice have the power and that AT&T now has the will to keep a host of inefficient competitors in business, at higher costs to the public than under regulated monopoly. If that is all we gain, then the whole historic experiment in competition was mistaken.