



## De-Regulate Telecommunications

By Laura P. Keith

With little fanfare or press, the Iowa Legislature did get at least one bill passed this year that will positively impact Iowa's economy both in the short and long term. (It's not the Iowa Values Fund, despite its press coverage.) House File 277, signed by the Governor March 15, addresses telecom deregulation in Iowa and sets the stage for future reforms.

Regulation of the telecommunications industry has been a revolving debate since the mid-1990s. To regulate and tax new communication technology that was overtaking the nation, such as wireless technology, the US Congress passed the Telecommunications Act of 1996.<sup>1</sup> The purpose of regulation of the telecommunication industry is to pave the way for access to better technology that will then spur on the economy while removing outdated regulation. Generally, even regulations set in place with good intentions by bureaucrats tend to translate into taxes, usually with the excuse of "sharing the corporate tax burden." Those taxes always mean higher prices, restrictions on economic growth, and, well, you get the picture.

House File 277 relates to communications services, including wireless, cable, and voice over internet protocol (VOIP). Deregulation, or handing the services over to the free-market forces, will occur only if "effective competition" exists in the market area.<sup>2</sup> Otherwise, the services provided by only one provider will continue to be regulated by the telecommunications board. Though the service-providers will continue to be tied down by "quality regulation," retail rates for businesses and residents will be fully deregulated.<sup>3</sup> Deregulation of prices will foster competition that will procure better service for lower prices.

According to a report commissioned by the U.S. Chamber of Commerce in October, 2004, "Recommended reforms, which require regulatory or legislative action at the state or federal level, fall into two categories: ending policies that discriminate among networks and ending price distortions in telecommunications markets."<sup>4</sup> House File 277 reaches both of those goals by sending prices back to the market and by posing the threat of re-regulation by the board if any service provider breaks anti-trust laws. Iowa is off to an excellent start.

One battle is still left to fight. House File 277 does not address the issue of taxation. The next major battle in telecommunication regulation reform is to once again update policies from the 1996 Telecommunications Act to effectively work in conjunction with new technology, such as VOIP. VOIP is a technology that uses internet technology to send voices by information "packets" through cables, which is traditionally done through sound waves by telephone cables. Since VOIP uses packets of information, it is ruled by the Federal Communications Commission to be an interstate-informational

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600 North Jackson Street

Mt. Pleasant, Iowa 52641-1328

Phone: 319-385-3462 Fax: 319-385-3799

E-Mail: [public.interest.institute@limitedgovernment.org](mailto:public.interest.institute@limitedgovernment.org) Website: [www.limitedgovernment.org](http://www.limitedgovernment.org)

service, taxable at neither the state nor local level through the telecommunications industry, giving the power to tax only to the federal government.<sup>5</sup> Already used extensively in Europe, the technology is much less expensive than traditional hard line or wireless technology. For example, it is much easier and less expensive to call the United States from the Russian Federation using VOIP technology in a local internet café than to pay hundreds of dollars using international phones or phone cards. As a locally-oriented service, however, the technology still has far to come.

The concern cities face is that as technology changes, so does their tax base. The 1996 law addressed this change and, as traditional phone lines decreased and use of wireless technology increased, the tax burden was shifted more evenly to include the wireless technology. Cities face obstacles to taxing VOIP technology, accessed through the Internet. Yet another obstruction causing problems for cities is that the VOIP technology companies providing the most service are located in Europe; how does a state tax a company from, say, Sweden?

House File 277 is just the beginning in a process to revolutionize how our state government regulates and taxes our telecommunications industry. As our lawmakers work with the new challenges at the state and federal level, Iowa citizens should consider the government's proper role in the state. Is the next battle over telecommunication regulation an opportunity to reject taxes that will replace other taxes and continue or expand government's role in the free-market process? Moreover, in regulation that seeks to ensure quality services, do government officials control what individual citizens should consider "quality"?

The Iowa Legislature and Governor did the right thing in passing and signing House File 277, providing a path headed for economic success and prosperity for Iowa, not to mention the golden icon of "choice". Hopefully, future regulation bills for the telecommunications industry will continue in the right direction. Once again, our tax dollars and liberty are at stake.

#### ENDNOTES:

<sup>1</sup> Shafroth, Frank, "You Say You Want a Revolution? Should State and Local Governments Tax Telecommunications?", *State Tax Notes: The Tax Doctor*, November 15, 2004, pp. 475-476.

<sup>2</sup> H.F. 277, Section 1b Line 27-34, <<http://coolice.legis.state.ia.us/legislations/enrolled/HF277.html>> (April 22, 2005). For full bill, visit [www.legis.state.ia.us](http://www.legis.state.ia.us).

<sup>3</sup> Press Release from the Office of Governor Tom Vilsack and Lt. Governor Sally Pedersen, "Governor Signs HF 277, Creates Reasonable Telecommunications Rates for Iowa Businesses," March 15, 2005, <[http://www.governor.state.ia.us/news/2005/march1505\\_1.html](http://www.governor.state.ia.us/news/2005/march1505_1.html)> (April 22, 2005).

<sup>4</sup> U.S. Chamber Broadband Coalition, "Regulators must Send the Right Signals," *Info Tech & Telecom News*, February 2005, pp. 1, 7.

<sup>5</sup> Shafroth, p. 478.

*Laura P. Keith is a Research Analyst with Public Interest Institute.*

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