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ABSTRACT

In the past year the Federal Communications Commission (FCC) has instituted new programs and initiatives designed to improve the exchange of information between the Commission and the research and academic community. An Office of Plans and Policy has been formed. As a result of the Future Planning Conference held last year, a research project is underway to examine and recommend changes in the common carrier accounting structure. The next Future Planning Conference will explore possible improvements and alternatives to rate of return regulation in the common carrier industry. Future plans call for inquiry and rulemaking into the data communications and data processing issue, which would incorporate into the rulemaking proceedings the record of a public technological session and a future planning conference. More research will be sponsored into the social consequences of communications, especially into the effect on children of televised advertisements of over-the-counter drugs. The FCC will aslo fund research into many other communications problems in order to provide the agency with hard data on which to base their rulemaking procedures. (JY)

NEWS

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CURRENT POLICY PROBLEMS AT THE FCC

ADDRESS BY THE HONORABLE RICHARD E. WILEY
CHAIRMAN, FEDERAL COMMUNICATIONS COMMISSION

Before the

FOURTH ANNUAL TELECOMMUNICATIONS POLICY
RESEARCH CONFERENCE

Airlie, Virginia
April 23, 1976

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It is an honor and privilege for me to be with you again this year. On behalf of the Federal Communications Commission, let me say how pleased we are to join with the Office of Telecommunications Policy and the Markle Foundation in sponsoring this year's Conference.

In this connection, I want to extend special thanks to the Organizing Committee: Roger Noll, Ray Bowers, Anne Branscomb, Ed Zajac, and Connie Friedman. They performed the truly thankless task of selecting the topics for the sessions, lining up the various participants, and generally handling the many arrangements involved. We owe them our gratitude for a job well done.

I also want to thank all of you for taking the time to attend the Conference -- in many cases, I realize, at your own personal expense. We appreciate the opportunity to benefit from your varied and considerable talent and experience. After all, the Commission is a major consumer of your product and, indeed, one of the primary purposes of this Conference is to increase contacts between the research community

and government policy makers. Your involvement allows us to have access to your expertise in a manner which otherwise would not be possible.

Last year, I spoke to you concerning the FCC's research needs and the strenuous efforts we planned on making to fulfill them. I tried to emphasize the importance which I attach to research and to policy planning. Today, I would like to reiterate and elaborate on that theme. The Commission, circa 1976, is faced with the necessity of making numerous policy decisions, decisions of considerable magnitude to the development of telecommunications in this country.

Unfortunately, but perhaps inevitably, many of these policy determinations will have to be reached in an atmosphere of uncertainty and imperfect knowledge. We do not know with precision what new communications breakthroughs will occur in the next few years. We know even less about potential advances in related fields, such as data processing, energy resources and transportation. And even if we knew the time stream of technological developments in communications, and in related or interacting fields, there is no way to predict with clarity just how our society would respond to such new technology. Who could have foreseen, for example, the sociologically complex phenomenon which -- almost overnight -- has made Citizens Band radio a household word?

Recognizing that our policy decisions will be made at times in an unclear environment, it is incumbent upon us to narrow the range of uncertainty as much as possible. It is precisely for this reason that research is so important to us at the Commission. However, in order for your work to be truly useful to us -- in major policy decisions and in our day-to-day actions -- the research in which you engage must be relevant in both content and timeliness. As I see it, this is a two-way street in which the FCC has an obligation to provide information on what issues we consider to be pertinent to our regulatory efforts. Accordingly, in the past year, we have instituted new programs and initiatives designed to improve the exchange of information between the Commission and the research and academic community.

The responsibility for creating and carrying out these efforts falls under the mandate of our Office of Plans and Policy. When I became Chairman two years ago, this Office -- which had been conceived by my predecessor -- was in its infancy with but a single staff member and no well defined role in the life of the agency. Today, the Office -- under the guiding hand of its very able and affable chief, Dale Hatfield -- is fully staffed with a multi-disciplinary team whose influence on the FCC's policy and decision-making is well recognized both within and outside the agency. In

future years, I anticipate that the size of this small but highly competent group of people will grow, along with the funding of its research efforts, as the need for and importance of long-range planning and policy analysis become more and more embedded into the fabric of the Commission.

As to the specifics of enhancing the transfer of information between us, I would point to last year's Future Planning Conference at the FCC. As many of you who participated will recall, this Conference served as a "town meeting" in which representatives of government, industry and the academic community were able to informally discuss issues of some immediate concern to the Commission, and to suggest areas in which additional research might be advisable.

Let me give you an example of a concrete result flowing from our Future Planning Conference. In one specific session, the topic was common carrier pricing and cost allocation. However, the participants concluded that a real deficiency, often hampering any discussion of pricing methods, was the absence of adequate accounting and financial data. Partly as a result of this conclusion, we now have a research project underway to examine and recommend changes in the common carrier accounting structure. This

role -- the identification of issues and problems needing additional research over the near term -- is one which we envision for "future" Future Planning Conferences.

In this regard, I would anticipate that such meetings would focus on one topic as opposed to the multi-subject format we employed last year. This approach will afford participants and the Commission the opportunity and ability to bring in-depth attention upon a single important subject. I am pleased to announce today that our next Future Planning Conference, scheduled for mid-July, will explore possible improvements and alternatives to rate of return regulation in the common carrier industry.

As you know, regulatory agencies were established to serve as a substitute, however imperfect, for the normal competitive forces of the marketplace. The imperfections of rate of return regulation, in particular, have been catalogued at considerable length by many students of administrative agencies. For example, critics of this traditional form of regulation allege that carriers have limited incentives to minimize expenses because profits are somewhat independent of expenses; and that, in any case, such expenditures

are passed on to the consumer. It is also claimed that carriers may be motivated to engage in unwarranted or overextensive capital investments because the greater the aggregate of capital outlay, the greater the revenues which the carrier may earn. In other words, the charge is that rate of return regulation inherently may penalize efficiencies while, on the other hand, encourage or reward inefficiencies.

Any regulatory approach which fosters inefficiency in the common carrier field assumes significant dimensions since small inefficiencies in this sector of American industry may have tremendous implications for the entire economy of our country. Telecommunications not only consumes an increasingly significant portion of the Gross National Product, but the key to future productivity gains may well be dependent upon the successful development of the "information society". In such an environment, it is important -- indeed crucial -- that the FCC be vigilant for opportunities to improve its methods of regulation.

While the flaws of traditional approaches to rate base regulation have been frequently pointed out, little has emerged in terms of concrete, practical suggestions for improvements. From our conference, we hope to, first, assess the current state of knowledge in this important area and, second, develop suggestions for future research that will lead to results which are pragmatic in concept and feasible in implementation. If tangible alternatives can be developed, the potential payoff in economic and social terms is simply overwhelming. During the next few weeks, we will be sending out invitations to many of you, and I sincerely hope that you will take the opportunity to share your knowledge with the Commission.

In addition to the use of future planning conferences to facilitate long-term policy, I plan -- in the next few weeks -- to propose to my colleagues a new and novel approach to agency rulemaking which, hopefully, will better integrate the research community into our processes while providing the Commissioners with a first-hand familiarity with technological developments. As has been widely speculated, the Commission's Common Carrier Bureau is presently preparing a Notice of Inquiry concerning the increasingly complex question of what constitutes data communications vis-a-vis data processing. The explosion in data uses and applications, coupled with increasingly sophisticated terminal equipment, has generated a pressing need for agency reevaluation of its regulatory guidelines in this area. As you may recall, our

five-year old Computer Inquiry decision dealt mainly with communications common carriers entering the time-sharing computer business. Since then, the technology has developed to the point where distributed data processing networks are now using equipment which appears to perform both computing and communications functions. In order to make sound policy decisions in this important area, it is essential that the Commission understand not only the current and planned technology but the applications thereof -- that is, how people actually will use available equipment and devices.

In order to obtain "hands-on" familiarity with the technology and the benefit of inputs from scholars and experts outside of government, my proposal involves three basic elements: (1) the initiation of the Notice of Inquiry and Proposed Rulemaking; (2) a public "technological session" at the FCC in which a representative range of computer and communications terminals would be demonstrated directly to our Commissioners; and (3) a future planning conference on specific data communications and data processing issues, the record of which would be incorporated in full into the rulemaking proceedings.

Let me elaborate on this idea. In my years at the Commission, I have perceived the limitations of traditional notice and comment rulemaking in terms of pragmatic input to Commission decision-making. What the Commission often receives -- partially as a result of its own failure or inability to formulate precisely drawn issues

and questions -- is more fancy than fact and more rhetoric than well-researched and reasonable solutions to difficult problems. Under the plan I have outlined, I would hope to supplement written comment with on-the-spot demonstrations and live, animated discussion and debate between experts in the field.

As to the Commission demonstration program, my hope is that -- in a free-wheeling atmosphere -- we will be able to ask terminal suppliers such questions as how a particular terminal is used, who are the typical users, what are the normal usea, and how the equipment is secured by the user. Moreover, terminal suppliers could not only explain their own equipment but raise questiona and challenges concerning a competitor's presentation. In this manner, abstract "black boxes" might take on a substantive and comprehensible form -- even to "poor dumb lawyers" like myself.

As indicated, this "nuts and bolts" get-together would be followed by a future planning conference on specific data communications and data processing issues. I believe that the incorporation -- for the first time ever -- of the transcript of such a sesaion into the record of one of our inquiries would represent a major and innovative step forward in the development of so-called "hybrid" rulemaking procedures. Such procedures, incidentally, are not dissimilar from recommendations now being considered by the Administrative Conference of the United States.

All in all, this approach -- as I see it -- would combine the best of all worlds for the Commission: basic technical familiarity, expert insight from the public, industry and academic sectors and, of course, the traditional written presentations of interested parties.

In the area of research and policy planning, I might also mention one other on-going project at the FCC -- this one involving the social consequences of communications. It has been suggested that televised advertisements of over-the-counter drugs may prompt the misuse of such products by children and encourage the illicit use of restricted drugs by children, teenagers and adults. Frankly, we simply do not know whether this is true or not. Accordingly, the FCC, in cooperation with the Federal Trade Commission, is sponsoring three panel discussions next month to provide our staffs with guidance in this area. Two of the panels will be specifically oriented toward determining research needs. Along with citizen group and industry representation, the panels will include members from the academic community in a position to discuss the extent of current studies and the possible need for additional research concerning this complex and difficult subject. The program is being handled for the FCC by Dr. Karen Hartenberger, Director of the Children's Television Task Force and a member of the Office of Plans and Policy.

If nothing else, I hope that my recitation of our past, current and future activities will convince you of the FCC's determination

today to utilize research to, as I put it earlier, "narrow the range of uncertainty" in our decision-making. In addition to the conference topics which I have discussed, we have a number of research projects either underway or to be funded within the next year. These studies -- which run the gamut of our statutory responsibilities -- involve such subjects as the following:

- an assessment of the need for new or revised financial reporting requirements of broadcast stations, cable systems, and telephone and telegraph companies;
- a review of how the broad range of new telecommunications technology will be implemented in major metropolitan areas;
- a comprehensive, long-range policy and planning program for personal radio communications;
- the development of criteria for surveillance of service quality in the common carrier field;
- a study of demand forecasting techniques for international communications;
- a computerized financial simulation model of AT&T;
- a study of common carrier depreciation methodologies;
- a recently completed study projecting the demand for UHF-TV channel assignments through 1990;
- an in-house look at more efficient use of the VHF and UHF spectrum by means of additional channel assignments where technically feasible;

- the development of a model TV receiver to improve, in particular, the utilization of the UHF television band; and
- a study of the coverage areas of FM radio stations and a companion review of the listenership of clear channel radio stations in areas having no primary service available.

Obviously, these are only very brief sketches of some of our current and near-term projects. Looking to the longer term, we are considering research in such areas as computer communications, the economics of small market television broadcasting, electronic mail, local exchange telephone plant technology, and various trade-offs between operator licensing, equipment type approval, and field enforcement in broadcast technical regulation. Naturally, we are anxious to develop further ideas based upon the discussions we are having here at this Conference.

I want to encourage you to participate in our research efforts by bidding on the fairly large number of Requests for Proposals that we are in the process of releasing. While the funds we have available for this purpose are limited, we also would encourage you to submit unsolicited proposals where they may be appropriate. For those of you in the academic research community, I would like to announce my intention to recommend to the Commission in the near future that we seek the legal authority to issue modest research grants. The

contract method of funding research is often too cumbersome and bureaucratic, and the sheer amount of paperwork involved is sufficient to discourage the support of small but worthwhile studies. A grant program would alleviate some of this burden; it would give us a larger pool of expert researchers to draw upon; and, finally, it would lead to closer ties between us while preserving academic freedom.

In closing, ladies and gentlemen, let me simply reiterate that such closer ties between the Commission and the academic community, and such a stronger commitment on our part to the importance of research in policy planning and decision-making, is something which I sincerely feel is in the public interest. Speaking personally, but I am certain for all of my colleagues at the FCC, I look forward to a continued and productive relationship with you in the years that lie ahead.

Thank you.