CHAPTER 6

TELECOMMUNICATIONS

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"Why hasn't the state been able to attract high-tech companies?"

State officials have spent tens of millions of dollars trying to diversify Hawai'i's economy and attract higher-paying jobs. The rhetoric has been especially fierce with respect to high-tech possibilities. Like their counterparts in other states, our elected officials see high-tech as *the* industry of the future. It is relatively friendly to the environment, provides high-paying jobs, and seems certain to grow.

To pursue this high-tech vision, the state government has created, staffed, and funded the High Technology Development Corporation, the Hawai'i Information Network Corporation, the Office of Space Industry, the Hawai'i Innovation Development Program, the Hawai'i Strategic Development Corporation, the Research and Development Industry Promotion Program, and many other programs and agencies.

Hawai'i's advantages. Multinational corporations have made it clear that Hawai'i has the potential to be the most attractive place for their telecommunications-intensive operations in the Asia-Pacific region. At the top of their list of reasons is Hawai'i's location. They know that many of the new, high-powered telecommunications satellites will be "invisible" and of limited benefit to earth stations on the U.S. mainland. That makes Hawai'i the best state in which to put a state-of-the-art teleport to access the new satellites *as well as* existing transpacific fiber optic cables. (A teleport is like an airport, except that messages, rather than airplanes, come and go.)

Compared with non-U.S. locations in the Asia-Pacific region, Hawai'i has the advantages of political stability, inexpensive telecommunications to the U.S. mainland, and better legal protection of trade secrets and software. And Hawai'i is a beautiful place with a rich history and diversified population, all of which add to its charm and appeal.

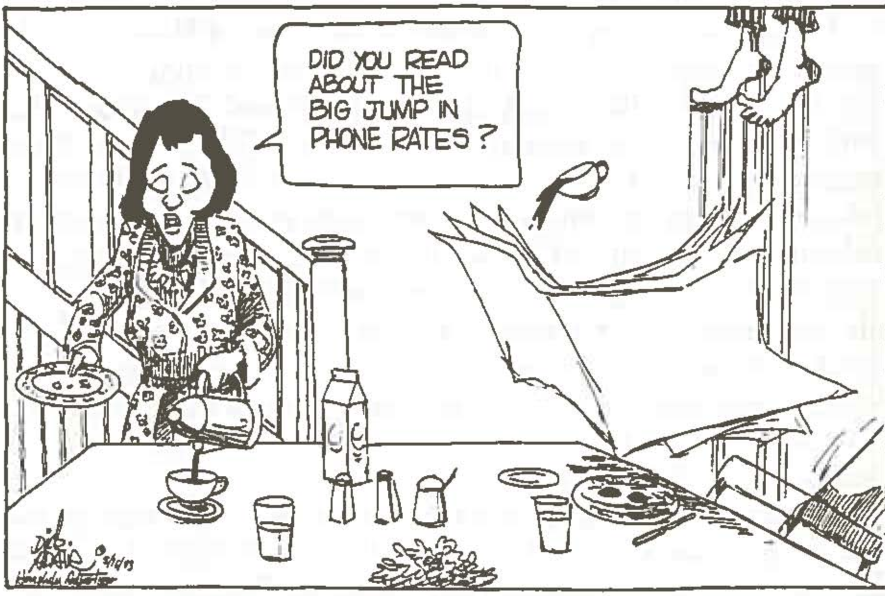
Total failure. Despite these advantages, the state has yet to attract *even one* sizable company. In fact, Hawai'i is losing, not gaining, high-tech jobs. VeriFone, Inc. and Intelect, Inc., two high-technology companies that started in Hawai'i, have relocated significant portions of their businesses out of Hawai'i. Sadly, Hawai'i finds itself on the "trailing edge" of telecommunications-oriented high-tech. Anyone concerned about the future of Hawai'i has got to be wondering why.

Some of the factors (e.g., high cost of living, inadequate public school system, and unfriendly business environment) are discussed in *The Price of Paradise*, Volume I, and elsewhere in this volume. But to us, the single biggest reason for Hawai'i's dismal failure in this area is that it doesn't have a competitive telecommunications environment. This, in turn, is the result of actions (and inactions) by a highly politicized Public Utilities Commission (PUC) and surprisingly effective lobbying by GTE Hawaiian Telephone Company (Hawaiian Tel) to preserve its monopoly.

Monopolies and regulatory commissions. The PUC is charged with regulating certain types of utility companies, such as motor carriers, water carriers, electrical utilities, and telecommunications utilities. The regulatory task of the PUC is based in economic theory: states should permit "natural monopolies" to hold franchises for exclusive service and, in return, accept government regulation of their prices and conditions of service.

Prior to the 1980s, many of the PUC commissioners were experts who thoroughly understood the industries they were regulating. But more recently PUC commissioners typically have been career state government employees, ex-legislators, or other politically connected persons.

Most mainland experts now recognize that the regulatory treatment of telephone companies as natural monopolies outlived its usefulness some years ago. It benefited the old Bell System by ensuring profits without the rigors of competition. And it was advantageous to elected officials because a monopoly can subsidize local service by charging more for toll service. That generally pleased residential subscribers (also known as constituents) who didn't understand that the long-term effect of no competition was higher costs for *both* local and long-distance service.



The federal government, recognizing it was time for a new approach, broke up the Bell System in 1984. The benefits with respect to interstate telecommunications are already apparent: greater variety of service options; increased quality and efficiency; more rapid introduction of innovation; and, perhaps most important to most people, lower prices—much lower prices.

A growing number of mainland states have followed the federal government's example by deregulating intrastate telecommunications (calls within one state). Those states—such as California, New York, Illinois, and Georgia—tend to be the homes of most of the country's new telecom-intensive businesses and jobs.

Continuing monopoly in Hawai'i. Do you realize that a one-minute, daytime call from Honolulu to Kahului costs forty cents, while the same call to New York City costs thirty cents? In a nutshell, the reason is that the federal government has deregulated calls from one state to another, but our elected officials have chosen *not* to deregulate intrastate calls.

You've got to be wondering why. We believe it primarily has to do with Hawaiian Tel's effectiveness in lobbying for protection from competition. And make no mistake, it does not want to compete.

The following story is instructive: a subsidiary of Hawaiian Tel's parent corporation used to be in the business of providing something called a central office switch. In the middle and late 1980s, this switch—known by technocrats worldwide as the GTD-5—was "leap-frogged" by those of other companies such as AT&T and Northern Telecom. Within a relatively short time, a growing number of experts had concluded that the GTD-5 was no match in price, performance, or upgradability. Consequently, it became increasingly difficult (eventually impossible) for Hawaiian Tel's sister company to sell GTD-5 switches on the mainland where telephone company procurement had been made competitive. But because there were no requirements for competitive procurement here, Hawaiian Tel was allowed to buy the outdated GTD-5 switches.

Thanks to its monopoly, Hawaiian Tel has been in no hurry to buy and install modern switches. The last batch of GTD-5s bought by Hawaiian Tel was obsolescent when purchased. Tragically, the GTD-5 was then and forever will remain technically incapable of providing something called Integrated Service Digital Network (ISDN). We don't want to bore you with the details, so we'll cut to the bottom line: ISDN has become the nervous system of modern interstate and international business. Without it, we can forget about attracting much in the way of high-tech business. Only one other state, Alaska, is equally backward when it comes to modern switching.

Modern technologies. Simply to get into the game of trying to attract new high-tech businesses (not to mention retaining the few already here), Hawai'i must get ISDN and other modern technologies which the GTD-5 is incapable of providing. But in order for that to happen, Hawaiian Tel must face the expensive and time-consuming task of installing a second, non-obsolete switch in each central office—and it has not even *begun* that process.

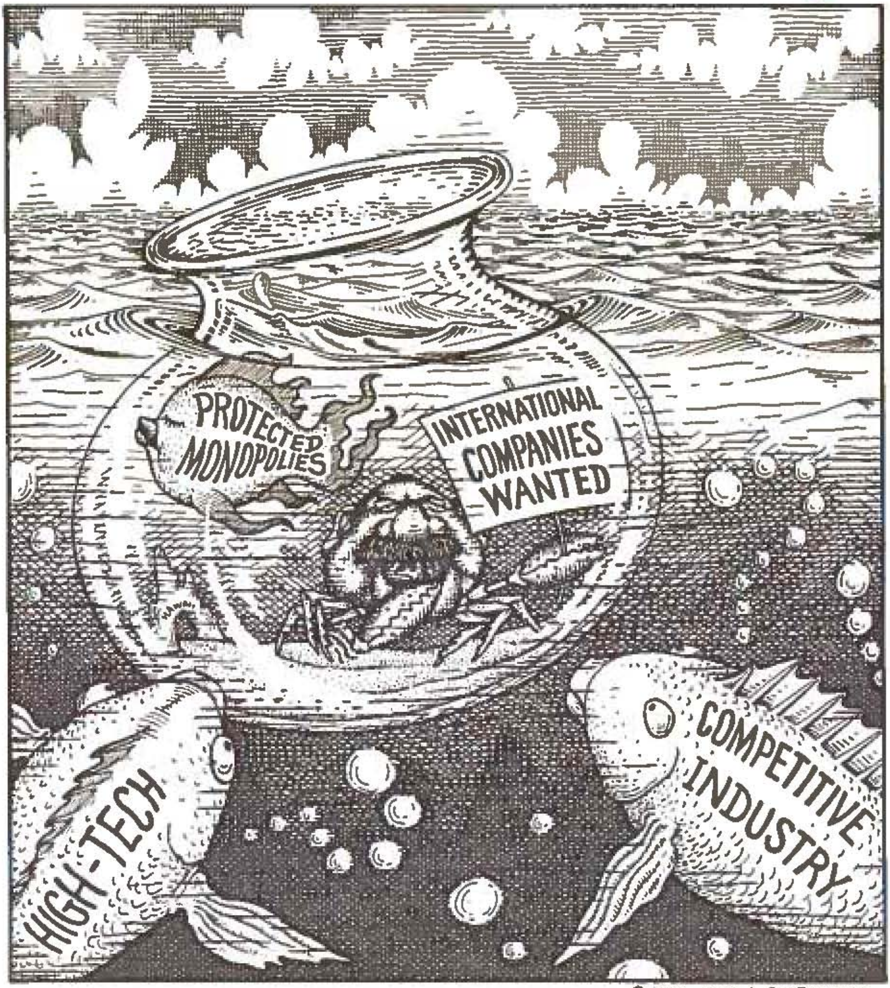
Surely you're wondering why Hawaiian Tel has been allowed to do this. We believe the answer has to do with politics. Hawaiian Tel has successfully used lobbying and other activities to defend its monopoly powers: every attempt to introduce meaningful intrastate competition in telecommunications has been killed in the legislature or vetoed by the governor.

We don't blame Hawaiian Tel for its effective lobbying or its self-interest. It pretty much has behaved the way profit-seeking companies are expected to behave. The failure is that of politicians who don't understand that Hawaiian Tel's best interests and those of the state are on two separate paths.

Not so local. We are not in favor of labeling businesses as "local" and "nonlocal." There's been too much of that in recent years, often as a pretext for cronyism, protectionism, or corruption. But with a name like *Hawaiian* Tel and an annual report that tries hard to make it look . . . well, Hawaiian, it should be noted that its chief executive officer and five out of the eight directors listed in its 1992 annual report do not live in Hawai'i and, presumably, have no intention of ever doing so.

Bud Smyser pointed out in the first volume of *The Price of Paradise* that nonresident owners lack "the commitment that comes from knowing their children and grandchildren will grow up here." He also noted: "To assure that [future-shaping decisions] are of our people, by our people and for our people, we will have to look more to our elected state and local governments."

Until our elected officials recognize that Hawaiian Tel's best interests and those of the state are on different paths, Hawai'i will remain a "digital backwater" that trails other states and nations. Our children and their children may be able to find jobs changing bed sheets, but they can forget about designing spreadsheets.


PROTECTED MONOPOLIES
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