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Keeping Massachusetts Competitive... and Investing For The Future

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2002 Campaign Initiative Co-Directors

Gloria Cordes Larson
Foley Hoag

Charles A. Baker
Hill & Barlow



ASSOCIATED INDUSTRIES
OF MASSACHUSETTS



18 Tremont Street, Suite 930
Boston, MA 02108
617-722-4160
fax 617-722-4151
www.massinsight.com

INFRASTRUCTURE POLICY BRIEF: TELECOMMUNICATIONS

One in a series of policy briefs outlining the critical challenges facing Massachusetts's next governor — and ways to effectively address them.

Policy Brief Series:

- INFRASTRUCTURE
- ENERGY
- TRANSPORTATION
- WATER
- TELECOM**
- HIGHER ED/SCIENCE
- K-12 EDUCATION
- HEALTH CARE

Why is this important?

"Today's telecom industry is experiencing an... industrial depression, one that has wiped out half a million jobs and \$2 trillion in U.S. market value... and shows few signs of abating".

Business Week

"The Telecom Depression", 10/02

The U.S. telecommunications industry experienced double-digit growth in the 90s from technological innovation, expanded competition and increased customer demand for communications services. Voice telephone communication, once the primary service of the industry, was expanded to include high-speed data transmission, as well as video and wireless services. Since then, however, the sluggish economy has dampened demand for telecom products and services resulting in industry consolidation, reduced profitability, and decreased capital investment. The telecom industry is now in a deflationary cycle that will continue at least through 2004. Many companies have closed their doors, reduced staffing or merged with others. Nonetheless, the industry continues to be a critical part of the Massachusetts economy.

Federal and state policies and leadership are important to ensure Massachusetts businesses have the telecommunications infrastructure they need to expand.

What are the challenges?

With the industry in a downturn, companies have been challenged to reduce operating costs and develop innovative products and services to enhance sales that affect investment in the Massachusetts telecommunications infrastructure.

■ **Reduced Information Technology Spending:** With corporations reducing costs and laying off workers in all sectors, businesses have reduced spending for phone, Internet and other communication and data transfer services. For example, nationally, it has been estimated that businesses have cut phone bills by about 6%, or \$9 billion from a \$141 billion market.

■ **Industry Downsizing:** Many telecommunications companies ranging from major corporations to start-up companies have significantly reduced staffing to cut operating costs. U.S. telecom, and related computer, electronics and e-commerce companies reduced jobs by over 90,000 during the third quarter of this year, down from over 132,000 jobs lost during the second quarter. In Massachusetts, many equipment manufacturers that had hoped to cash in on the telecommunications boom have either closed or downsized - trimming thousands of jobs.

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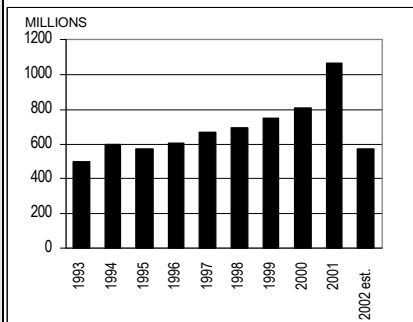
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Telecommunications Investments have slowed considerably -

Massachusetts has been particularly hard hit by the industry slowdown as it is a leader in telecommunications development and home to thousands of electronics, Internet, and manufacturing businesses that provide the hardware, software, products and services to support the industry's infrastructure.

- Verizon Reduced Capital Spending from Sluggish Economy and Reduced Business Spending on Information Technology:

Verizon Communications Capital Spending



Source: Verizon Communications

- Despite the economic slowdown, Verizon will invest more than \$1.5 million a day this year in Massachusetts for network expansion and modernization.

- **Technological Transformation:** Technological advancements continue to transform the industry including: fiber optic networks to bring faster communications; internet telephony to transmit voice, video, fax and electronic mail communications over the web; and undersea cables and orbiting satellites to integrate wire-line and wireless customers into a global system of high bandwidth communications.
- **Slow Growth:** Overall, the telecom industry will not likely see a surge in business demand in the near future. Industry experts project industry growth will most likely lag economic recovery by six months - trickling down to equipment manufacturers and associated businesses at least six months later, producing modest growth in the second half of 2004, the earliest.
- **Not All Regions of the State Have Highest Quality Service:** A combination of federal regulations and pure economics have limited the amount of high speed broadband in certain areas of the state.

What are the next governor's options?

The telecommunications industry is undergoing a critical market transition. Efforts to stimulate industry growth are needed. The following efforts will help Massachusetts maintain its position at the forefront of the telecommunications industry.

- **Promote a national broadband technology policy:** Develop national broadband rules by the Federal Communications Commission that encourage deployment. Broadband rules should stimulate investment and greater competition between various technologies for broadband delivery, content and applications.
- **Extend Telecommunications Services to Underserved Areas:** Support groups such as Berkshire Connect to help all areas of the Commonwealth benefit from the most advanced communications services.
- **Promote Economic Growth and Development:** Attracting new businesses to the Commonwealth will increase demand for telecommunications services and products.
- **Foster an Environment Conducive to the Success of Massachusetts Companies:** Adopt policies that promote stable business costs (health care, taxes, insurance, etc.) that ultimately help telecom companies reduce operating costs and improve profitability.
- **Ensure High-Quality Workforce:** The need for a technically literate workforce does not diminish in difficult economic times. Programs to encourage the study of technology and increase the strength of Massachusetts' schools to support the success of telecom companies should continue.

Mass Insight convened several experts in the field of telecommunications to prepare this policy brief.

Mass Insight's 2002 Campaign Initiative is a first-of-its-kind briefing series for the media and statewide candidates and later the transition teams, focusing on critical competitive issues facing the Commonwealth. The issues that are the focus of the Initiative - Controlling Costs, Infrastructure (Transportation, Water, Energy, Telecommunications), Higher Education/Science, Health Care, and K-12 Education - have all been identified by business leaders as essential to creating new jobs and maintaining a positive business environment.