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Auction Long-Distance Service for the Undecided

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Imposition starting Saturday of a monthly $1 "access charge" to all telephone customers for long-distance service should focus attention on a related matter: The Federal Communications Commission is expected to decide in June or July how to assign millions of phone users a long-distance carrier if they have not chosen one voluntarily.

Until recently, anyone wishing to make a long-distance call via a carrier other than American Telephone & Telegraph Co. had to dial a local number for the carrier and then enter an identification code in addition to the number that he wished to call. The connections of the other long-distance carriers were inferior in more technical ways as well.

The FCC's purpose in deregulating the long-distance telephone industry is to allow the alternative carriers to compete in both price and quality of service, thus providing long-distance telephone communications at the lowest cost to society. A key element of the deregulation is to provide all long-distance carriers with "equal access." Under equal access, each telephone subscriber is asked to choose a carrier through which his long-distance calls will be routed automatically.

Equal access has been implemented in a number of communities over the past year. So far, there have been two proposals to deal with those subscribers who do not indicate a preferred carrier. Under the first all such customers are allocated to AT&T, or in the jargon, AT&T is the sole default provider. The second proposal is to calculate the proportions in which customers who did express a preference chose between the carriers, and then to allocate the customers who did not express a preference in the same proportions to the various carriers.

Unfortunately, neither plan gives any guarantee of achieving the FCC's goal of long-distance telephone services at minimum cost to society. The goal would be achieved if each customer, with his particular volume of calls and calling pattern, is allocated to the carrier that can service him at the lowest cost. But in different areas, the carriers have different costs—they may have different technology or different capacity available. There is strong evidence for this in the fact that with the exception of AT&T, not all carriers serve all areas, and also in the difference in the prices charged by the various carriers.

The AT&T plan makes no attempt to identify the lowest-cost provider. The market-share plan is not much better. In the main, it is the high-volume customers who will express a preference for a particular long-distance carrier—their high volume justifies the cost of investigating the alternatives and making an explicit choice. But a carrier that provides the lowest-cost service at satisfactory quality for high-volume customers in an area isn't necessarily the lowest-cost provider for customers with much smaller volume.

There is, however, a simple method that will achieve the FCC goal. It is to auction off the right to be default provider. For each area about to go to equal access, the local telephone company should make a list of all customers who do not state a preference. The customers should be grouped by relevant characteristics, such as monthly volume and the time and geographical pattern of calls. AT&T and the other long-distance carriers should then be invited to bid for the right to be default providers to the various groups.

Suppose equal access is to be implemented in West Los Angeles and such an auction is held. The carrier able to provide long-distance service at lowest cost to customers with a small volume of calls generally made at night to San Francisco would bid most for such customers. Likewise, the carrier able at lowest cost to serve customers with a moderate volume of calls generally made during the day to New York would bid most for them.

The auction method takes advantage of the carriers' information about their own costs—information difficult for a regulator to obtain. Moreover, in their bidding, the carriers will be able to take into account anticipated cost changes due to improvements in technology, expansion of capacity, or cost-reduction through learning.

The AT&T plan and the market-share plan not only do not guarantee long-distance service at lowest cost, but they are, in a way, gifts to the long-distance carriers. The carriers would be willing to pay for the right to provide service to customers who do not express a preference. But under both plans, the carriers are given this right free of charge. The auction method is a simple means to assess the fair price to each carrier—they need not bid any more than they wish. The revenue generated by such auctions could be applied to reducing the deficit, or used to subsidize local telephone service for low-income households.

Auctioning the right to be default provider is both fair and efficient. It allows the market to do the job: Society achieves long-distance telephone service at the lowest cost and the plan generates revenue without additional taxes on long-distance service.

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