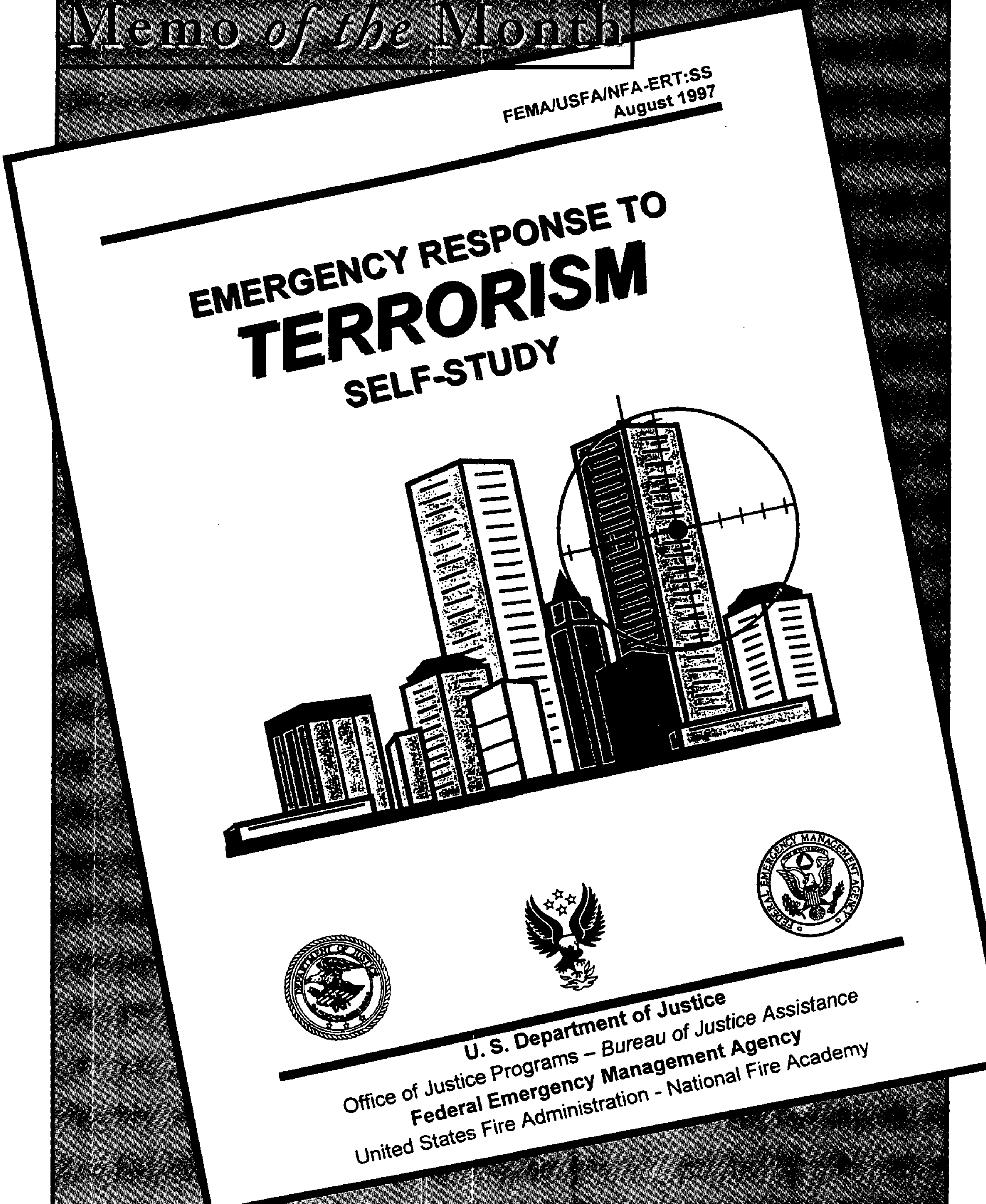
Memo of the Month



FEMA/USFA/NFA-ERT:SS
August 1997

EMERGENCY RESPONSE TO
TERRORISM
SELF-STUDY

U. S. Department of Justice
Office of Justice Programs – *Bureau of Justice Assistance*
Federal Emergency Management Agency
United States Fire Administration - National Fire Academy

The editors and staff of

The Washington Monthly

wish to express ...

◆ our condolences—and offer our prayers—for the families and friends of the innocent people murdered on September 11;

◆ our awe of the bravery of the rescue workers who rushed to the scenes of devastation—and our grief for those who did not return;

◆ our support for the president, Congress, and the men and women of our armed forces, intelligence services, and diplomatic corps, who must now respond as a team to these atrocities with force, resolve, and wisdom;

◆ and our pride in the American people, who have reacted to these attacks with expressions of patriotism and a unity of purpose that would make the Founders proud.

Disconnect

How Bush and Michael Powell are killing the New Economy. And how to turn it around.

BY KAREN KORNBLUH

On the last Friday in August, President Bush, fresh from his vacation in Texas, was asked by a reporter about his plans to address the frustration so many Americans currently face trying to get high-speed Internet access. The president didn't appear terribly worried. "The technologies are evolving," he said, with equanimity. His only concern was that "the economic slowdown will perhaps slow down some of the progress made, as far as high-speed access." The possibility that the telecom industry's collapse and the sudden scarcity of high-speed access might have been a major *cause* of the economic slowdown did not seem to have occurred to him.

Weeks later, America suffered a devastating terrorist attack in the heart of New York City's financial district. It's too early to know what the full economic effect of the attack will be. But it's clear that the economy was already in trouble, and that the telecommunications sector was at the heart of the problem. Consider this: The drop in market value among telecommunications service providers and equipment makers accounts for more than 90 percent of the net loss in stock wealth since the spring of last year, according to an in-depth analysis by *The Wall Street Journal*.

To understand what's really going wrong with the economy, and how he might help turn it around, Bush ought to talk with the folks at Rhythms NetConnections, an Englewood, Colorado, company that provides high-speed, high-capacity, always-on "broadband" Internet connections. Rhythms is one of dozens of firms that sprang to life and helped drive the boom economy of the late 1990s, after Congress had passed the Telecommunications Act of 1996, which sought to replace monopoly regulation of local phone service with the sort of competition that Rhythms and its many contemporaries represented. The telecom bill mandated that the regional monopolies known as the Baby Bells—currently four behemoths: Qwest, SBC, Verizon, and BellSouth—sell access to what industry types have dubbed the "last mile"—literally, the copper wires connecting each business and home to the public network. Rhythms planned to access these wires and increase their network's speed and capacity through Digital Subscriber Line (DSL) technology, giving customers Internet access far superior to the dial-up access most were accustomed to using. In 1999, a year after it began providing service, Rhythms had one of the most successful IPOs in history. It quickly grew to 2,000 employees, expanding its service to 75 markets. Rhythms had customers, growing revenues, a real business plan, and—unlike most dot-coms—a product for which people were eager to pay.

Unfortunately, the company quickly ran into a problem it couldn't control: the Bells. In order to operate its business, Rhythms needed the Bells' cooperation on matters such as letting Rhythms install equipment in the Bell "office"—the local hub of the Internet's vast hub-and-spoke system. But Rhythms, as a Bell "customer," was also a competitor; the Baby Bells had their own, pricier broadband services they wanted to sell to customers. Cooperating with Rhythms, as the telecom act requires, would mean cutting into their own revenues. So, perhaps not surprisingly, customer service wasn't always spectacular. Rhythms says the Bells repeatedly delayed or cancelled appointments to connect customers—costing Rhythms $150 each time it sent a truck to a customer site. Sometimes, Bell service people would wire up a new customer but somehow forget to pass that information on to Rhythms, causing infuriating delays for customers. The Bells also charged through the nose for Rhythms to set up equipment in its local offices. For their part, the

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