I. INTRODUCTION

The Federal Communications Commission’s (“FCC” or the “Commission”) purpose is to advance the interests of the American people in the sphere of communications. In striving to achieve that goal, commissioners generally develop distinct regulatory philosophies to guide their consideration of agency proposals. Our regulatory philosophy is grounded in some basic “first principles.”

I. INTRODUCTION

The Federal Communications Commission’s (“FCC” or the “Commission”) purpose is to advance the interests of the American people in the sphere of communications. In striving to achieve their considerable editing skills to bear in assisting with the completion of this article. Finally, the authors appreciate the sharp intellect and editorial support of Dan Troy of Wiley, Rein, & Fielding.


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First and foremost, a government agency such as the FCC is obligated to follow the law as written. Absent adherence to this fundamental idea, agencies lose the very core of their credibility and authority. Proposed actions largely fall within one of four categories under the “follow the law” principle. First, there are actions that are clearly mandated by the Communications Act of 1934 and the Telecommunications Act of 1996 (collectively the “Act”). For these actions, the Commission has very little burden to demonstrate the efficacy of its action. Congress has required us to act. Second, there are cases where Congress has granted the FCC authority to act, but action is not mandatory. In these cases, the Commission must show its actions are reasonable. In the third category are proposed actions that have no clear foundation in the Act. Essentially the statutes are silent. For these cases, the agency faces a significant burden to justify any action. The Commission should be extremely reluctant to support policy initiatives in the face of statutory silence. Finally, in the fourth category are actions that a statute forbids. Obviously, agency action in these cases is barred.

Where a proposed agency action falls within the first of these categories, other factors become relevant. The first group of questions to consider is largely procedural: has the agency acted in a transparent and accountable way? What is the nature of the record that supports government intervention? Will aggrieved parties have an opportunity to take us to court to ensure that the agency has adhered to the law?

Aside from these procedural concerns, the Commission should also examine at a macro level whether regulatory intervention is necessary or desirable. The FCC should intervene only when other government agencies (federal, state or local) are inadequately addressing a problem. Basic principles of federalism suggest that, in many cases, states and localities are better positioned to solve public policy problems.

Finally, the Commission must assess whether the regulatory resources spent on a given proposal could be more fruitfully deployed on other initiatives. Ultimately, the FCC’s resources are a zero-sum game. Resources taken for one proposal mean resources taken away from others.

Of course, these principles are easier to state in the abstract than they are to employ in Commission decision-making. Nonetheless, these principles should be brought to bear on FCC decisions. Absent such guideposts, the agency may stumble into policy arenas beyond its core competency and central mission.

Unfortunately, the Commission frequently strays from these principles. These forays are often motivated by the desire to reach out and “do good”—to solve every perceived problem that remotely affects telecommunications and social policies. This well-intentioned approach has unfortunate and unintentional consequences. The approach often disregards or aggressively and inappropriately interprets the law. It may adopt results-oriented procedures that deny parties viable legal recourse and thwart public participation. It often advocates FCC action even when another government entity or the marketplace is working to resolve the issue. Furthermore, these excursions draw resources away from functions clearly within the FCC’s mandate. Paradoxically the “do good” approach is often popularly received. New initiatives get quite a bit of positive media attention, as the government appears to be “solving problems.” Ultimately, this approach may undermine the core mission and the effectiveness of the agency itself.

Set out below is a case study of one Commission action indicative of the “do good” approach to

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2 See, e.g., 47 U.S.C. §§ 154(k), 157(b), 203, 204(a)(2)(A), 208(b), 209, 213(c), 215, 219(b), 220(a)(2), 224(b)(1), 225(b), 225(d), 227(b)(2), 227(c), 227(d)(2), 227(d)(3), 228(b), 228(c), 229(a)(1), 251(e)(1), 253(d), 254(a), 254(h)(2), 254(k), 255(b)(1), 256(b)(1), 257(a)(c), 259(a)(b), 260(b), 271(d)(3), 271(d)(6)(B), 275(b), 332(a), 332(c)(1)(C), 534(d)(2), 534(f), 534(g)(2); see also Communications Act of 1934, Title I, ch. 652, 48 Stat. 1064 (codified as amended at 47 U.S.C. §§ 151–714).
4 See, e.g., 47 U.S.C. §§ 213(a)(c), 214(d), 218, 220(b), 302(a), 533(c), 549.
6 This is by no means an exhaustive list. Rather, this article highlights those principles most relevant.
FCC policy-making. We chose it not because it shows a particularly egregious misstep by the Commission, but somewhat the opposite. It shows that, although the Commission has no clear responsibility in certain areas, the desire to "do good" can push the agency to the edges of, and beyond, its jurisdictional authority. This inexorably leads to procedural short cuts, diminished efforts by other government agencies, and diversion of resources from more pressing and fundamental Commission activities. Thus, by attempting to "do good," the agency may actually do harm.

The recent Joint FCC/FTC Policy Statement For the Advertising of Dial-Around and Other Long-Distance Services To Consumers ("FCC/FTC Advertising Guidelines" or "Guidelines") is ultimately designed to protect consumers from allegedly misleading statements and improper disclosures embodied in certain advertisements for "dial-around" long-distance services. "Dial-around" services include "10-10-XXX," which permits a customer to "dial around" the pre-selected long-distance service provider on a given telephone. The Commission staff and Federal Trade Commission ("FTC") staff jointly developed the 18-page guidelines in an effort to determine which "dial-around" advertising approaches are permissible and which are considered misleading. The FCC/FTC Advertising Guidelines were released with much fanfare and positive publicity on March 1, 2000.

Generally speaking, the Guidelines establish basic principles that dial-around advertisers must follow (i.e. truthfulness, disclosure, clarity and conspicuousness) in an effort to put all carriers on equal footing with respect to advertising practices. These principles are supported by detailed "factors" that the FCC considers in determining whether to bring an enforcement action against carriers who advertise in a "deceptive manner." For example, in determining whether an ad is "conspicuous," the FCC considers the prominence of qualifying information, the proximity and placement of this information, the absence of distracting elements, and the clarity and understandability of the text of the disclosure.

Commissioner Furchtgott-Roth dissented from the FCC/FTC Advertising Guidelines for several reasons, each of which is discussed in detail below.

First, by endorsing the Guidelines, the FCC failed to give proper weight to the "follow the law" principle. In situations where enabling statutes are silent regarding specific activities (the third category discussed above), an agency should be extremely reluctant to act. Because the Act is silent as to advertising regulation, parties advocating FCC action in this arena have a high burden to show that the proposed regulations are justified. Here, based on our analysis of the Act and reviewing courts' interpretation of the statutory language, that burden has not been met. Second, the Guidelines should have been developed in a more open and transparent process that holds the FCC accountable for the result. The Guidelines were adopted without the benefit of a notice and comment rulemaking and are therefore not readily subject to court review. Nonetheless, the Commission has made clear that parties disregard these Guidelines at their own peril.

Third, this initiative failed to take into account the parallel actions of state government, as well as the possible preemptive impact of the guidelines. State efforts and consumer education in this area may well be sufficient to reach the stated policy goals of the Guidelines.

Fourth, there are other worthy projects at the agency—including other consumer protection efforts well within the FCC's statutory charge—which deserve full resources before funds are funneled to initiatives like the FCC/FTC Advertising

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9 See id. at para. 3. "Pre-selected" in this circumstance means the carrier that the consumer has chosen to be the primary or "default" long-distance carrier for a particular line.

10 See id. at para. 10.


13 Id. at para. 9.

14 Id. at para. 22.

15 Chairman Kennard asserts that "[t]he FCC stands ready to take enforcement action against carriers that engage in the kind of misleading practices described in the [Guidelines]." Id.

16 Although the FCC has far less experience in the consumer protection area than do states, once the Commission has begun to occupy the field, states may be reluctant to act. This topic is covered more fully in Part IV infra.
Regulators are not legislators. If the law is imperfect, the legislators, not the regulators, must correct it. If the law has obvious problems, legislators can and will fix it. An agency’s legitimacy derives solely from following the law as written. When the FCC goes beyond the law as written, it tarnishes the law, reduces the law’s legitimacy and by extension, undermines the Commission’s own regulatory legitimacy. Agencies do not add anything by doing “good,” no matter how tempting. Congress defines the “good” that the FCC should do. It is not for the Commission to direct social policy, override Congress or to expand the agency’s jurisdiction to reach every perceived problem.

Regulators do no one a favor by going beyond the law or around it in an attempt to cure some perceived defect. Agencies do not help the public because the public looks to the legislature, not regulators, to write law. The most effective way to force a legislature to correct a bad law is to implement it as written. Independent agencies must simply be implementers of the law—not advocates for its change or advocates for exceeding the law.\(^9\)

Predictability and trustworthiness allow markets to flourish. Regulators do not create new technologies nor do they create new services. The FCC does not create consumer benefits. Markets do all of these things and more.\(^{20}\) The Commission should be a reluctant entrant into the market-


\(^{18}\) Nonetheless, the Commission frequently has trouble even with this basic principle. See GTE Service Corp. v. FCC, 205 F.3d 416 (D.C. Cir. 2000). In GTE Service Corp., Chief Judge Edwards, looking to the guidance of AT&T Corp. v. Iowa Utilities Board, 525 U.S. 366 (1999), remanded the recent order from In re Deployment of Wireline Service Offering Advanced Telecommunications Capability ("Collocation Order"), First Report and Order and Further Notice of Proposed Rulemaking, 14 FCC Rcd. 4761 (1999), because the Commission did not follow the law. See GTE Service Corp., 205 F.3d at 427. The court found that the Commission’s “interpretations of ‘necessary’ and ‘physical collocation’ appear[ed] to diverge from any realistic meaning of the statute.” Id. at 421 In Bell Atlantic Telephone Co. v. FCC, 206 F.3d 1 (D.C. Cir. 2000), Judge Williams vacated the Commissions ruling In re Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, Intercarrier Compensation for ISP-Bound Traffic, 14 FCC Rcd. 3689 (1999). The FCC had held that calls to internet service providers could not be considered “local” for purposes of subjecting them to the reciprocal compensation requirement of the Act because such calls are global in nature when considered “end to end.” The court held that the FCC had not given a proper justification for why ISP calls that LECs terminate are not seen as “local traffic” subject to reciprocal compensation under 47 U.S.C. § 251(b)(5). See Bell Atlantic, 206 F.3d at 5.


\(^{20}\) See generally James C. Thomas, Fifty Years With the Administrative Procedure Act and Judicial Review Remains an Enigma, 52 TULSA L.J. 259 (1996) (describing the role of separation of powers in the context of the Administrative Procedure Act and the delegation doctrine) [hereinafter Thomas].
place because regulators do not "do" anything. Indeed, the only jobs an agency creates are for Washington lobbyists, retained to navigate the hazardous shoals of its regulations. In the end, the best that agencies can do to "help" markets is to adhere to the law.

B. Application: The FCC/FTC Advertising Guidelines

1. The FTC’s Lack of Authority over Common Carrier Advertising

The Guidelines presented an interesting threshold legal question: before even addressing the FCC’s authority, why is the FTC not responsible as the primary federal regulator of advertising practices? Most policy-makers—including the FCC—want to curtail practices that are confusing, misleading or even fraudulent. However, Congress generally designated the FTC, not the FCC, as the regulator of advertising. In this case, however, that was not true. Despite its broad general mandate, the Federal Trade Commission lacks authority over advertising practices by certain industries, including common carriers, under sections 45 and 46 of the Federal Trade Commission Act ("FTC Act"). The statute expressly states that the FTC is empowered to regulate advertising and other commercial practices "except [for] banks ... common carriers ... air carriers ... and

[those] subject to the Packers and Stockyards Act."29

These exceptions have been long recognized by the courts as binding and unalterable. The lack of authority under the exceptions to the FTC’s mandate was described in 1920 in T.C. Hurst & Son v. FTC.24 In Hurst, a delegation doctrine case, the court reviewed the express language of the FTC Act.25 Citing the enabling statute extensively, the court concluded "[b]anks and common carriers were doubtless excepted from the act."26 This notion was confirmed by the 1962 Supreme Court antitrust case of U.S. v. Philadelphia National Bank.27 The Court in Philadelphia National Bank cited Hurst, further affirming that the FTC’s authority is bounded by its statutory exceptions.28

Cases involving common carriers, air carriers and packers similarly confirm the FTC’s lack of statutory authority. Regarding common carriers, FTC v. Miller29 held that the FTC could not enforce a subpoena against a common carrier due to the statutory exemptions.30 In Miller, the FTC attempted to investigate the advertising of interstate motor carriers.31 To assist in its investigation, the FTC subpoenaed some of the carriers’ records.32 The subpoenas were opposed, and the FTC sought enforcement in the district court.33 In overturning the district court’s ruling, the Sixth Circuit cited the FTC statute’s common carrier ex-


22 Federal Trade Commission Act, ch. 311, 38 Stat. 717, §§ 5, 6 (1914) (codified as amended at 15 U.S.C. §§ 45(a)(2), 46(a), 46(b) (1994 & Supp. 1998)). This enabling statute otherwise empowering the FTC clearly has exceptions regarding regulation of common carriers. See FTC v. Miller, 549 F.2d 452 (7th Cir. 1977) (applying this exception squarely to misleading advertising by common carriers).

The court dismissed the FTC's assertion that advertising by common carriers was a non-common carrier activity and thus fell within FTC control. Despite the FTC's protests, the court chose to allow these "carve outs" in FTC authority to persist. Interestingly, the case goes on to describe the FTC's own failed efforts to have the common carrier exception eliminated during the 94th congressional session.

Other courts have reached similar results. Regarding air carriers, the Supreme Court indicated in *Nader v. Allegheny Airlines* that jurisdiction for consumer complaints resided with the states. Likewise, the packers and stockyard exception was sustained in *United Corp. v. FTC*. In *United*, the FTC attempted to limit the advertising of a meat packer that identified its ham as a product of Virginia. In rejecting the FTC's claim, the Fourth Circuit looked directly to the packers exception in the FTC Act. The court held that a firm, which falls within the control of the Packers and Stockyard Act and related statutes, simply is not subject to FTC regulation.

Telecommunications common carriers have experienced similar results. For example, the court in *United States v. Western Union Telegraph Co.*, invoked the common carrier statutory exception as a ground for dismissal. In preparation for laying out the Sherman Act claims at issue, the court clearly stated that "[t]he Federal Trade Commission Act, 15 U.S.C. § 41 et. seq. [sic], does not apply to telegraph companies and is not invoked." In sum, it is clear that the FTC is precluded from regulating common carrier advertising. The language of the FTC's enabling statute is as plain today as it was seventy years ago. In 1929, the Supreme Court in *Texas & New Orleans Railroad Co. v. Brotherhood of Railway and Steamship Clerks* held that "[t]he definite prohibition of Congress inserted in the act cannot therefore be overridden in the view that Congress intended it to be ignored." The prohibition could not be ignored in 1929. Nor should it be ignored today. The FTC has no authority over common carrier advertising.

Of course, at some level, this conclusion begs the question: why would Congress carve out certain industries from FTC regulation? The answer appears to be that Congress originally created other agencies to regulate these industries. Bankers were regulated by the SEC, packers by the USDA, air carriers by the CAB and common carriers by the ICC. Yet, Congress did not consistently give these agencies jurisdiction over advertising. For some common carrier regulators, such as the FAA (successor to the CAB), their enabling statutes specifically contained provisions about advertising. For the purposes of this article, the key question is whether Congress ever

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34 See id. at 455.
35 See id. at 458. ("The regulatory approach articulated by the Commission, while it may be a desirable one, is not the one Congress appears to have adopted.").
36 See id. at 459 ("Congress' recognition of a regulatory gap with respect to banks is implicitly a recognition of such a gap with respect to common carriers as well.").
37 See id.
39 See id. at 292; accord American Airlines v. Platinum World Travel, 769 F. Supp. 1203, 1205 (D. Utah 1990) (rejecting defendants' claim that the consumer complaint belonged with the FTC because 15 U.S.C. § 45 "specifically exempts air carriers"). Recently the FCC faced a Nader-type request when Southwestern Bell Mobile Sys. petitioned the agency to assert its primary jurisdiction over state law claims in Smilow v. Southwestern Bell Mobile Sys., Inc., Civ. A. No. 97-10307-REK (D. Mass 1996). In the subsequent order, the Commission declined to assert primary jurisdiction regarding the state consumer fraud law claims. See *In re Southwestern Bell Mobile Sys., Inc. Petition for a Declaratory Ruling Regarding the Just and Reasonable Nature of, and State Challenges to, Rates Charged by CMRS Providers when Charging for Incoming Calls and Charging for Calls in Whole Minute Increments, Memorandum Opinion and Order*, 14 FCC Rcd. 19,988, para. 10 (1999) [hereinafter *Southwestern Bell Order*].
40 110 F.2d 473 (4th Cir. 1940).
41 See id. at 474.
42 See id. at 475. ("It was doubtless because plenary power over the unfair trade practices of packers had been vested in the Secretary of Agriculture.").
43 See id. at 474; accord U.S. v. Purdue Farms, 680 F.2d 277, 284 n.6 (2d Cir. 1982) (relating a situation where, interestingly enough, Purdue wanted to be subject to FTC jurisdiction so it could avoid regulation by the Secretary of Agriculture).
45 See id. at 381.
46 Id.
47 281 U.S. 548 (1929).
48 Id. at 570.
51 See *Nader*, 426 U.S. at 295 n.11 (citing Section 11 of the Federal Aviation Act of 1958, subsequently codified at 49 U.S.C. §§ 1381, 1505). Many of these provisions have subse-
granted advertising regulatory authority over telecommunications carriers to the FCC. Despite numerous amendments, the Communications Act does not give the FCC any explicit authority over advertising.


The FCC/FTC Advertising Guidelines assert FCC authority over advertising solely based on Section 201(b) of the Act. That section "requires that common carriers' practices... for and in connection with... communication service, shall be just and reasonable." The FCC/FTC Advertising Guidelines then contend that advertising qualifies as a "practice" under the statute. However, the plain meaning of the term "practices" taken in the context of Section 201 clearly does not reach advertising. This is particularly true in light of Congress' ability to craft explicit "advertising" jurisdiction over common carrier services when its desires such jurisdiction. For example, Congress has specifically granted the FTC jurisdiction over "advertisements" for pay-per-call services.

In the end, if the Commission reads "practices" to include advertising, it will be difficult to discern what the term does not include. For example, are labor and employment policies of telephone companies equivalent to "practices" under the Act? Could the Commission thus issue hiring guidelines for common carriers? Is the use of energy efficient equipment a "practice"? Could the Commission mandate use of certain fuel-efficient service vans? These examples may seem extraordinary; it would be difficult to argue that the statute supports such a sweeping assertion of jurisdiction. Yet, the assertion of authority over advertising is no less extraordinary. Indeed, the FCC is no more expert in fuel efficiencies or hiring practices than they are in advertising. Simply put, a limitation without a reasonably foreseeable end is not a limitation at all.

The questionable nature of the FCC's authority in this area is best illustrated by the Commission's prior experiences. Despite the Act's sixty-five years on the books, the FCC/FTC Advertising Guidelines cite only two cases in which the Commission has equated "practices" with advertising. This lack of precedent alone demonstrates how significant a step these Guidelines are in expanding the reach of the Commission's authority. The first case cited by the FCC/FTC Advertising Guidelines is the In re Business Discount Plan forfeiture order. That 1998 decision represents the only clear assertion of Commission authority over advertising under Section 201. Even in that case, however, the advertising claim arose out of complaints regarding the unauthorized switching of long-distance provider—or "slamming"—an area in which...
the Commission has clear jurisdiction under 47 U.S.C. § 258. Business Discount Plan can best be interpreted as an indication that deceptive advertising that results in illegal activity may aggravate such conduct and result in more severe FCC sanctions. Moreover, it is one thing to examine ancillary advertising as part of an investigation into issues clearly within the FCC’s purview; it is quite another to have the Commission regulate advertising qua advertising.

The second case cited in the FCC/FTC Advertising Guidelines is even weaker. That 1992 case, In re AT&T\(^6\) is not specifically about broad-based advertising. Rather, it concerns disclosures contained in the Card Issuer Identification (“CID”) format calling cards distributed by telecommunications carriers.\(^6\) In its letters to cardholders, AT&T stated that “government requirements” mandated that AT&T issue new calling cards. AT&T’s literature also asked the customer to destroy their old card. The Commission staff determined that the letter’s request could mislead consumers into destroying not only AT&T cards, but also those marketed jointly with other carriers and those issued by other carriers alone.\(^6\) While the FCC in AT&T\(^6\) did not find any violation of Section 201(b), a “letter of admonishment” was issued under the agency’s general authority contained in Section 4(i). This section allows the Commission to “issue such orders, not inconsistent with this Act, as may be necessary in the execution of its functions.”\(^6\) In the end, AT&T did not squarely or rigorously address the scope of Section 201’s “practices” language.\(^5\)

As these cases illustrate, even if the FCC has recently nibbled on the edges of advertising regulation, it is quite another matter for the Commission, through these Guidelines, to enter into the advertising-regulation arena full stride after sixty-five years of dormancy.

3. Courts Have Been Reluctant to View Section 201’s “Practices” Language to Include Advertising

The frailty of the Commission’s precedent is further betrayed by the skeptical view courts have taken of the application of Section 201 to advertising.\(^6\) Although the jurisdictional issue regarding advertising alone has never been squarely presented, courts have examined the scope of the FCC’s advertising authority in the context of various federal preemption cases. While the legal analyses in these cases are distinguishable, the decisions illustrate the facial weaknesses of the Commission’s jurisdictional assertions. For example, a federal district court in New Jersey concluded that “Sections 201, 202 and 203 of the Communications Act impose no duty on common carriers to make accurate and authentic representations in their promotional practices.”\(^6\)

In holding that claims asserting violations of state advertising laws could proceed against a carrier, the Second Circuit similarly held that “while the [Act] does provide some causes of action for customers, it provides none for deceptive advertisement and billing.”\(^6\) That court concluded that the Act “does not indicate a uniquely federal interest . . . in preventing a carrier from misrepresenting the nature of its rates to its customers.”\(^6\)

The Seventh Circuit’s message to the FTC in Miller is equally applicable to the FCC here: “The regulatory approach articulated by the Commission, while it may be a desirable one, is not the one Congress appears to have adopted.”\(^7\) In sum, the generic statutes of the FTC and the FCC do

\(^6\) See supra notes 59–62 and accompanying text.

\(^7\) Weinberg v. Sprint Corp., 165 F.R.D. 431 (D. N.J. 1996) (emphasis added). Similarly, other courts have held that the Act does not provide a remedy for failure of advertising to fully disclose certain components of services, or even fraudulent advertising. See DeCastro v. AWACS, 935 F. Supp. 541 (D. N.J. 1996); In re Long Distance Telecommunications Litig., 831 F.2d 627 (6th Cir. 1987).

\(^6\) Marcus v. AT&T, 138 F.3d 46, 54 (2d Cir. 1998).

\(^7\) Id.

\(^6\) Miller, 549 F.2d at 458 (holding that the FTC had no authority to regulate common carriers who were then regulated by the Interstate Commerce Act). Under Miller the FTC has no authority over common carriers’ advertising, and under the Act the FCC also lacks such authority. Id. As Comm’r Furchtgott-Roth said in his dissent, joint statements
not readily define any federal role in common carrier advertising regulation.

4. The Pay-Per-Call Experience

At least one recent enactment by Congress indicates that it is both aware of the FCC's jurisdictional limits and is able to alter those limits through legislation when the need arises. When faced with a public policy need, Congress has given power over common carrier advertising to the appropriate agency. In the early 1990s, the pay-per-call industry experienced rapid growth. Part of the growth included services that charged large per-minute or per-call charges. Some of these charges were not fully disclosed. To stem concerns about these practices, in 1992 Congress passed the Telephone Disclosure and Dispute Resolution Act ("TDDRA"). TDDRA grants the FTC authority over the advertising practices of pay-per-call services, while granting the FCC expanded powers regarding carriers of such services. This statutory scheme at least supports the notion that Congress is aware of the common carrier exclusion and has chosen to lift that exclusion only for particular services.

Pay-per-call abuses raise issues similar to the customer concerns that the FCC/FTC Advertising Guidelines seek to address. However, when Congress sought to solve problems created by pay-per-call service advertising, it specifically assigned that duty to the FTC, while assigning carrier regulation to the FCC. Why? Because Congress understood that the FTC lacks authority over pay-per-call services' advertising under the "common carrier" exemption, yet the FTC has the expertise to address advertising abuses. Thus, while Congress gave the FCC distinct regulatory responsibilities over carriers, it left advertising regulation to the FTC. If the FCC already had authority over "advertising," as asserted in the Guidelines, no one, including Congress, the President and the witnesses who testified on the merits of TDDRA, appeared to believe that the FCC already had such authority. Given this background, only an explicit statutory grant of authority over advertising regulation should permit the FTC or FCC to proceed with the Guidelines.

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In the end, the FCC's authority to promulgate advertising guidelines is unsubstantiated. While the FTC clearly lacks such authority, the FCC's own precedent is quite weak and the courts have been highly skeptical of such an assertion of Commission authority. Moreover, TDDRA contradicts the idea that Congress intended Section 201's "practices" to include advertising. Nonetheless, it is possible, perhaps even likely, that a court facing a challenge to the FCC's authority to promulgate the Guidelines would uphold the agency's action. Courts can and do uphold FCC rules, even if a court explicitly notes that the rule is inconsistent with the clearest and most straightforward inter-

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72 See TDDRA, supra note 71.

73 One need not be a scholar of the "Chevron doctrine," set forth in Chevron U.S.A., Inc. v. Natural Resources Defense Council, Inc., 467 U.S. 847 (1984), to see that such an explicit statutory exclusion likely keeps the FTC from asserting any power in the area of common carrier advertising under Chevron Step I: "First, always, is the question whether Congress has directly spoken to the precise question at issue. If the intent of Congress is clear, that is the end of the matter; for the court, as well as the agency, must give effect to the unambiguously expressed intent of Congress." CHEVRON, 467 U.S. at 842-843. But see Mobile Communications v. FCC, 77 F.3d 1399, 1404, 1406 (D.C. Cir. 1996) (describing section 4(i) as the "necessary and proper clause" of the Act and holding that the FCC had "affirmative statutory support" to require a last minute payment from Mobile for a license that would be of high dollar value if that license were sold at auction, even if the plain language of the authorizing statute exempted Mobile from the licensing fee requirements).

74 In title I, TDDRA amends the FCC's enabling statute to apply its appropriate expertise. See 47 U.S.C. § 228. In title II, TDDRA amends the FTC's enabling statute to allow this limited oversight of common carrier activities. See 15 U.S.C. §§ 5711-5714. Congress also passed Section 228 of the Act to give the FCC additional tools to combat 900 services' abuses. Otherwise the statutory authority granted in the TDDRA would have been superfluous. A better reading is that the Commission and the FTC previously lacked the authority given in TDDRA. Here the agency would require a similar grant of authority prior to any action.
The Principle of Transparency and Accountability Ideal
A. The Principle of Transparency and Accountability

Regulation should be transparent, accessible and visible to ordinary Americans. It should not be an arcane art for Washington lawyers. Citizens should not have to go to Washington or hire high-priced specialists to have their voices heard. Further, the process that leads to policy should be open. No one should be setting policy involving significant public interest behind closed doors at the FCC. These decisions should be made with full public input and discernible explanation. Fortunately, government long ago accepted many of these basic democratic principles of sound decision-making and adopted statutes, such as the Administrative Procedure Act ("APA"), to achieve these goals. Agencies should be reluctant to stray too far from these protections. Ad hoc proceedings undermine the goals of transparency, openness, predictability and accountability. For example, in "merger" cases, the financial stakes are high, and unfortunately, the process has been at its most opaque. However, license transfer proceedings have not been the only forum in which the Commission has short-changed the public and the process.

The agency's use of "Policy Statements" rather than rules to implement new regulatory policies is also disturbing. By removing selected issues from the rigors of the APA, the agency largely eliminates the opportunity for interested parties and the public to participate in the policy development process. These decisions also are shielded from judicial review. Moreover, it is not clear what regulatory goals the Commission attempts to achieve through "Policy Statements" rather than formal rules. In many cases, it appears that the
Commission is merely trying to avoid the procedural rigors of notice-and-comment rulemaking, while implicitly demanding licensees’ compliance with these less formally promulgated policies.

B. Application of the Transparency and Accountability Principle to the FTC/FCC Advertising Guidelines

Unfortunately, in adopting the Guidelines the Commission strayed from transparency and accountability. The Commission did not issue a Notice of Proposed Rulemaking, nor did it seek comment from the public. Instead, the Guidelines emerged in full form from the agency. No party had an opportunity to file comments that presented the jurisdictional issues discussed above. No state attorneys general were able to describe the roles played by the states. No consumers were able to express their views about the need for the Guidelines. No service providers could share their best advertising practices. A notice-and-comment process might not have changed the outcome. But the public would have been able to learn that the FCC was contemplating the Guidelines. No service providers could inform the FCC of their views and have the satisfaction of believing that their views were taken into consideration.

The Guidelines are an oddity in administrative law. They are not binding per se, thus a carrier cannot be prosecuted for violating them. Nonetheless, carriers can be prosecuted for “practices” under Section 201(b) that are not “just” and “reasonable.” The Guidelines will apparently provide guidance to the Commission in evaluating what is “just” and “reasonable” under the statute. Thus, in a way, the Guidelines became binding. Yet, despite their real world impact, these Guidelines may evade judicial review because they are not strictly “binding.”

Based on these factors, the Guidelines do not fulfill the agency’s obligation to transparency and accountability.

IV. A HEALTHY RESPECT FOR FEDERALISM

A. The Principle of Federalism and the Merits of Decentralization

Good regulation is not necessarily FCC regulation; in many areas, states are often in the best position to provide the necessary regulatory oversight. The government that is closest to the people often makes better policy decisions for the public. Consistent with this view, Congress routinely and clearly delegates some authority to the FCC and reserves other authority for the states.84 The Commission should defend the jurisdictional lines drawn by Congress so that it does not intrude upon the authority of the states.

Given the Commission’s discrete authority and limited resources, the FCC should be reluctant to interfere in areas where states and localities have exercised their authority and implemented public policy solutions. Yet, the FCC’s power over state issues is perhaps greater and preemptions more frequent than they have ever been. FCC encroachment has been accomplished both by expansive interpretations of FCC jurisdiction that only implicitly diminish state authority, as well as by explicit preemption of state authority.85 The prominence of the Commission should make it particularly cautious about expansive jurisdictional interpretations that may inadvertently chill state and local oversight and control.86

86 States have created websites and consumer complaint filing centers to address these issues. See, e.g., California Department of Consumer Affairs, Consumer Information Center (visited May 21, 2000) <www.dca.ca.gov/cic>. The states have actively pursued fraud in sweepstakes, pay-per-call and other areas. Many states have distributed information on how to de-
B. Application of the Federalism and Decentralization Principle to the FCC/FTC Advertising Guidelines

The FCC and FTC are not the only government entities available to help consumers with advertising complaints. State consumer protection laws and agencies are already well equipped for this task. State and local governments also have the jurisdiction and resources to act.\textsuperscript{87} Indeed, it appears that states have actively applied and enforced their authority consistent with consumer interests. Therefore, it is not clear from a policy or consumer perspective that FCC intervention is necessary or even particularly helpful. Moreover, FCC intervention may actually cause harm by raising questions about federal preemption of state false advertising claims.

The federal role envisioned by the Guidelines may not be warranted because the states have been actively pursuing false advertising claims against common carriers. For example, Iowa has a criminal statute directly addressing telephone advertising issues.\textsuperscript{88} As the state legislature found: "customers of telephone service have been subjected to fraud in the sale and advertisement of telephone long-distance and local services... It is the intent of the general assembly to provide the attorney general with additional remedies to address the issue of fraud in the sale of telecommunications services."\textsuperscript{89} Similarly, the New York State Attorney General's Office recently settled a dispute with Qwest over a misleading promotion involving free airline tickets.\textsuperscript{90} In the negotiations, the Attorney General's Office indicated it would continue to review telecommunications advertisements and take action against those that it believed to be misleading. As illustrated by these examples, the states simply have more experience than the FCC in addressing consumer protection issues related to fraud, misleading claims or false advertising. Moreover, these local enforcement priorities are likely better attuned to local needs than is a national program emanating from Washington.

Consumers also frequently avail themselves of state law-based actions against allegedly false and misleading advertising. In the wireless arena alone, there have been at least fifty-one action suits filed against service providers, often involving the alleged failure of carriers' advertising to fully disclose the relevant terms of their billing practices.\textsuperscript{91} These complaints often incorporate both federal and state claims.\textsuperscript{92} However, carriers often argue that the Commission's primary jurisdiction over wireless rates preempts the state claims in the litigation.\textsuperscript{93} In addressing these claims, many courts have concluded that the "savings clause" in Section 414 of the Act\textsuperscript{94} preserved the right of parties to pursue state remedies.\textsuperscript{95} In light of state regulatory activity, resources, expertise and state consumer protection statutes, there may be little need for the FCC/FTC Advertising

\textsuperscript{89} See WCA Memorandum Order, supra note 9.
\textsuperscript{90} 47 U.S.C. § 414 ("Nothing in this chapter contained shall in any way abridge or alter the remedies now existing at common law or by statute, but the provisions of this chapter are in addition to such remedies.").
\textsuperscript{91} See WCA Memorandum Order, supra note 9.
\textsuperscript{92} See WCA Petition, supra note 93.
Guidelines.96 Furthermore, the Guidelines may actually harm state efforts to regulate advertising. The mere existence of federal guidelines promulgated under the auspices of the Act may create uncertainty regarding the preemption of state law claims in this area. Although the FCC/FTC Advertising Guidelines assert that they “[d]o not preempt existing state law,”97 they may, at the very least, raise new questions about the viability of the state law claims discussed above. As one district court recently held, the savings clause of Section 414 “must be read to preserve only state claims that address obligations different from those created by the Communications Act.”98 Even if state claims are ultimately allowed, the mere fact that opponents to these consumers may have further support for a federal preemption defense will delay the adjudication of state law claims and increase the cost of the litigation.99 Even before the FCC/FTC Advertising Guidelines, it was clear that courts often struggle to determine where federal jurisdiction ends and state law claims begin.100 These Guidelines will only add to this confusion.

Almost twenty-five years ago, the Supreme Court gave guidance for such preemption cases. In Nader v. Allegheny Airlines,101 the Court allowed state law claims to stand despite statutory language in the Federal Aviation Act giving certain consumer protection roles to the FAA.102 In Nader, the well-known plaintiff was bumped from his flight to Hartford where he was to give a speech to a consumer group.103 In the subsequent controversy, the plaintiff refused the tender of a future free flight and pursued a state fraudulent representation claim, as well as a federal statutory claim.104 After a decision favorable to the plaintiff rendered by the district court, and subsequent reversal by the court of appeals, the Supreme Court held that neither the filed rate doctrine nor the doctrine of primary jurisdiction precludes an action for damages on common law fraud grounds against an airline.105

In a line of cases dating back to 1986, courts have found that the Act does not preempt state-based claims, specifically in the case of fraudulent or misleading advertising.106 The preemption premise has been most often based on the federal “filed-rate” doctrine. Under the most common rationale for allowing the state claims, courts have concluded that fraudulent advertising actions do not challenge the actual rates charged, but only the manner in which they are communicated. Thus, the filed-rate doctrine does not protect the carriers from these state law claims. This reasoning was recently reaffirmed in Lipcon v. Sprint Corp.107 Lipcon challenged Sprint’s practice of not disclosing the expiration dates on its phone cards.108 In allowing the state claims to go forward, the court found the carrier’s preemption claim meritless and determined that any effect on rates was “speculative at best.”109

Preemption of advertising claims against wireless carriers was raised in a 1998 Washington state

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96. While consumer protection is sometimes required, at other times markets may police themselves. With complete information, the distrust engendered by disappointed consumers forces a firm to change its ways or face extinction.

97. FCC/FTC Advertising Guidelines, supra note 8, at para. 10.

98. Marcus v. AT&T Corp., 938 F. Supp. 1158, 1168 (S.D.N.Y. 1996), aff’d, 138 F.3d 46 (2d Cir. 1998) (emphasis added); see also Comtronics, Inc. v. Puerto Rico Tel. Co., 555 F.2d 701, 707 n.6 (1st Cir. 1977). Recently, but prior to the release of the Guidelines, the Commission affirmed the availability of state claims in this area. See Southwestern Bell Order, supra note 39.

99. Some cases have bounced back and forth between state and federal courts through removals and remands.

100. See In re Long Distance Telecommunications Litig., 831 F.2d 627, 633 (6th Cir. 1987) (“We believe the district court erred in holding that the state law claims for fraud and deceit . . . were preempted by the Communications Act.”); see also Tenore, 136 Wash. 2d at 349. (holding that “[t]he matter falls within the conventional competence of the courts without the need for referral to the FCC”). See generally DeCastro v. AWACS, 935 F. Supp. 541 (D. N.J. 1996); In re Comcast Cellular Telecommunications Litigation, 949 F. Supp. 1193 (E.D. Pa. 1996); Zimmy v. AWACS, 958 F. Supp. 947 (D. Del. 1997); Kellerman v. MCI Telecommunications Corp., 112 Ill. 2d 428 (1986). But see Bastien v. AT&T Wireless, 205 F.3d 983 (7th Cir. 2000) (holding that Section 332(c)(3) of the Act barred plaintiff’s claim because the resulting award would have the same effect as ratemaking).


102. See id. at 307 (stating “[p]assengers may . . . pursue their remedy under the common law”).

103. See id. at 292 (surprising as it seems, apparently the airline did not know with whom it was dealing).

104. See id. at 295.

105. See id. at 302 (“Congress did not intend to require private litigants to obtain an [FAA] determination before they could proceed with the common-law remedies.”).


107. 962 F. Supp. 1490, 1494–95 (S.D. Fla. 1997); see also WCA Memorandum Order, supra note 93.

108. See id.

109. Id. at 1494. (stating “[t]he prosecution of these claims will in no way interfere with the delivery of long distance telephone service to defendant’s customers”).
case against AT&T Wireless Services. The parties alleged that AT&T's advertisements were misleading because they failed to disclose the practice of rounding up to the next full minute in charges for airtime. The court ultimately concluded that the Act's "savings clause" preserved the state law claims.

The court found that the filed-rate exception did not apply, since wireless providers are not rate regulated and thus do not file rate tariffs. In rejecting preemption, the court held that state laws provided supplemental protection against activities for which the Act did not allocate regulatory authority to a federal agency.

At the end of the day, it is not clear that the FCC/FTC Advertising Guidelines will necessarily alter the preemption analysis described above. Nonetheless, it is clear that courts have not read the "practices" language in Section 201 of the Act as granting the FCC jurisdiction over advertising. To the contrary, these preemption cases have frequently found that there is no role for the FCC in advertising regulation. The Guidelines inevitably alter this calculus. Although the ultimate conclusion that state law claims are permitted may not change, the Commission may have significantly muddied the waters for consumers seeking the protection under state consumer protection laws.

V. A ZERO SUM GAME

A. Principle of a Zero Sum Game

Assuming that a proposed action falls within the FCC's jurisdiction and satisfies the other threshold criteria set forth above, it still may not be advisable to proceed if other, more worthy activities must be forsaken to pursue a proposed initiative. Stated in more practical terms, Congress prescribes a budget for the Commission that it believes is commensurate with the agency's statutory mandate. In most cases, to take on new tasks, the Commission must reallocate resources from elsewhere in its budget. In economic terms, it is a zero sum game. Funding must be taken from one area to fund another. Therefore, new initiatives inherently contain an implicit subjective judgment: the Commission deems a new initiative more important than other existing or potential programs or policies. There is no question that the Commission's existing funding levels impact its decision-making. The Chairman himself has recently called for expenditure reductions (through curtailed travel and a limited hiring freeze) due to funding concerns.

In developing its spending priorities, the Commission should first fully fund all activities that it is statutorily obligated to carry out. Only after these core functions have been fully funded should the FCC even consider branching off in new directions where its authority is less clear. As described above, possible Commission activities can be thought of in four categories: (1) mandated, (2) permissible, (3) not clearly contemplated and (4) barred. Those agency actions that are clearly required by the statute should receive full funding before any examination of activities in the second or third category.

Despite its resource limitations, the Commission rarely makes these hard choices explicit. Instead, especially in the case of new "initiatives," there appears to be little appreciation of the implicit choices at work. New initiatives almost invariably mean positive press attention without any accountability or mention of their impact on agency resources. Yet, new initiatives often mean that some core statutory functions, such as interference enforcement or licensing processing, may go unfunded or under funded. But there will not be a press release touting the new advertising protections while at the same time adequately describing the corresponding cuts in personnel assigned to review the safety of cell phones. Licensing delays and backlogs, universal service assistance and development of more refined bidding processes all need support. Yet, the Commission presses on into areas outside its mandate, where every dollar spent could have gone towards meeting goals more closely tied to the FCC's statutory mission.

\[111\] See id. at 106.
\[112\] See id.
\[113\] See id. at 117.
\[114\] Anyone who has ever managed a household budget knows what the reality of zero sum budgeting entails. Simply put, money spent on one activity cannot also be spent on another. For example, money spent on eating out is money that cannot be spent on a new refrigerator. The FCC should assess its budget in the same way.
\[115\] At this writing, the FCC continues under a hiring freeze and a travel moratorium.
from other activities. Rather than deploy resources to pursue an initiative grounded in statutory silence, the Commission should deploy resources in areas where it has explicit (and often sole) jurisdiction to protect consumers. For example, the Commission has clear, congressionally mandated authority over a number of consumer protection initiatives, including interstate obscene and harassing phone calls, unsolicited interstate fax advertisements, slamming and radio interference. Too often the Commission does not have the resources to promptly and comprehensively address consumer concerns in these core jurisdictional areas. Indeed, a strong case can be made that consumers would derive greater benefits from more aggressive enforcement operations against unsolicited faxing than they would from duplicative advertising regulation. Such prioritization seems consistent with a statute that grants the FCC exclusive jurisdiction over unsolicited faxes, but says nary a word about FCC advertising regulation. Before the agency ventures forth beyond its clear statutory mandate, it must first take care of its primary statutory responsibilities. In a zero sum resources game, the Commission too often acts first and budgets later.

VI. CONCLUSION

In looking at the four factors outlined above, the decision to dissent from the FCC/FTC Advertising Guidelines was not a close call. If authorized at all, the Commission’s authority to regulate carrier advertising is at the outer edges of its jurisdiction. The Guidelines were developed in a largely opaque process without the benefit of notice and comment and without the accountability that comes with traditional rulemaking. Even if authorized and promulgated in an open procedural context, the Guidelines address an area already subject to substantial state oversight. Thus, it is not clear

116 The Commission has moved in recent years to step up its consumer and enforcement activities. These steps include creation of the Enforcement and Consumer Information bureaus. The agency already has a significant docket regarding these issues before these new enforcement initiatives. See Common Carrier Bureau Releases Statistics on Telephone-Related Complaints and Consumer Tips and Scams, Rpt. No. CC-48, Dec. 17, 1998 (finding that “[i]n 1997, CCB handled a total of 44,035 telephone related complaints”). The Common Carrier Bureau also reported the following yearly statistics: in 1997, 20,475 slamming complaints;
that federal action is necessary, and it is possible that FCC action may actually harm state efforts via preemption. Finally, in allocating Commission resources, there appear to be many stronger candidates for FCC attention than carrier advertising.

In the end, some may disagree about the merits of the FCC/FTC Advertising Guidelines. That is not, however, the most significant part of the debate. Instead, it is essential that the Commission explicitly consider the factors set out above in its decision-making. The Commission should assess where a given decision lies on the continuum of its authority. Additionally, the Commission should practice openness and accountability. The Commission is well advised to consider the role of the states and the relative need for federal intervention. Finally, the Commission should make explicit resource allocation decisions in assessing the utility of new initiatives. Such an open discussion of these considerations would give Congress, industry and the public a full and clear debate on the challenges we face and the priorities we value.