



The broadband numbers racket

September 17, 2009

By Thomas Hazlett

The global broadband race is on, and the crowd has turned on Team USA. In 2004, President George W. Bush said, with characteristic rounding error: "Tenth is ten spots too low". Things worsened. Last December, President Barack Obama warned that "It is unacceptable that the United States ranks 15th in the world in broadband adoption". Things worsened more rapidly. In February 2009, Obama exclaimed: "To even say the words that the United States of America has now descended to 19th place in the world is unconscionable".

Code Blue. "Broadband Internet in the United States is a disaster," wrote the Washington Monthly in May 2009. "It's appalling. It's embarrassing. It's preposterous. Compared to the rest of the world, our connections are slow, balky, and expensive".

Perhaps these balky connections prevent Americans accessing marketplace data. Taking broadband subscriptions from international consultancy Point Topic for the first quarter of 2009 (the most recent reported), population from the CIA Factbook, and household size from United Nations statistics (all accessed via my US high-speed mobile data connection), the five wealthiest large economies rank as follows: USA (71.1 per cent), France (70.3 per cent), UK (69.3 per cent), Japan (67.4 per cent), and Germany (64.5 per cent).

Shifting assumptions shuffle the rankings. Focusing on subscriptions "per 100 persons" moves the US (and Japan) down (due to higher family size). But if broadband availability is the question - which it is - then households are the better denominator. The OECD data, placing the US 15th, are wrong. Properly adjusted, the U.S. is between eight and tenth, finds FCC economist Scott Wallsten, who also shows that US speed and pricing are competitive with most other advanced economies.

Korea, Japan, and Sweden do feature ultra-high bandwidth connections - as does Verizon's FiOS, which is expensive and, to the majority of the 10 million U.S. homes passed, not worth the money. Northwestern University economists Shane Greenstein and Ryan McDevitt estimate that increasing broadband speeds by ten times would yield about \$6bn to \$7bn per year in US subscriber gains. Massive subsidies - the suggestion of some - would be wasted. Moreover, these gains may soon be captured. Cable systems, blessed by the technology gods with recent breakthroughs, are economically upping bandwidth with DOCSIS 3.0, forcing their telco rivals to improve DSL or lay fiber to the home.

Cherry picking broadband penetration numbers to imply the US is slipping into Third World status is fine for a quickie term paper, at least if Wikipedia goes down. But adults ought sort through the multi-dimensional complexity of the real world - as The Economist attempts to do with its e-Readiness Index which, in 2008, ranked the US as first in the world. And to understand that, were the US to (I'm not recommending this) simply eliminate cheap dial-up - available due to our unmetered local calling - we could jump the broadband ranks by forcing 10m dial-up homes to pay up or go without.

To cite these realities is to utter heresy, even to be blasted as anti-technology. The consensus "disaster" is not a scientific diagnosis, but a thinly coded call to action. The patient - comatose -- must be rushed to the nearest Public Policy Emergency Room and revived by the attending

physician.

Every party - from corporate giants to heads of state - poses as that ER doc. They are ready to inject the elixir; no time for lab tests! The pre-set diagnosis is that our superiors have more ambitiously regulated, forcing networks to help entrants compete. But South Korea, the reigning world heavyweight broadband champ, did not use "line-sharing" but rival networks to win the crown. Canada, a highly ranked contender, did likewise, sporting cable vs. telephone rivalry similar to our own.

Meanwhile, countries such as Germany unwisely protected state telecoms monopolies and then over-regulated their private spin-offs. While cable TV networks pass virtually every German home, regulations block efficiencies and kill investment incentives. Cable modem service has been near nil, botching a golden competitive opportunity that South Korea, Canada, and the US enjoy.

Kevin Werbach, an influential University of Pennsylvania law professor, writes that the key is to "Compare broadband offerings in places that pushed forward with line-sharing, like France and Japan, with those in the US." He asserts that eliminating line-sharing for US DSL "was a terrible loss for competition and innovation".

The market data say otherwise. French and Japanese networks languished early in the WWW era, while unregulated US cable TV operators pioneered innovations in residential broadband. DSL growth in America then surged when it, too, was deregulated. In a December 2008 Review of Network Economics study, Anil Caliskan and I show that by year-end 2006 there were 25m DSL households, some 10m more than predicted by the regulated, pre-2003 trend. Controlling for other factors, there was no "loss for competition and innovation," but a strong broadband deployment boost.

This is not an arbitrary international ranking but a natural experiment, rich with implication for regulators. Such inquiries into the effect of policy measures are vital. No matter where a country ranks, better policies will help citizens, consumers, innovators, and the economy. To carefully evaluate the alternatives is not to be anti-technology, but pro-science. America's high-tech economy deserves no less.

Thomas Hazlett is professor of law and economics at George Mason University. He formerly served as chief economist of the Federal Communications Commission.