In a recent post on Slate, Sascha Meinrath and James Losey of the New America Foundation tell us we are being duped by “big telecom” and that broadband access in the United States is even worse than you think. Here we go again.

Perhaps no issue of such wonkery has been manipulated to achieve the policy goals advocates want as have the U.S. broadband rankings. Meinrath and Lossey don’t disappoint on this count. Like so many advocates of strong broadband regulation (such as strong net neutrality rules and forcing broadband providers to “unbundle” their networks), Meinrath and Lossey play fast and loose with the OECD broadband rankings to claim the sky is falling and therefore that more regulation is needed.

They start off repeating the standard complaint that the U.S. ranks 15th among 30 OECD nations in broadband adoption per-capita. Yet, as we have shown in our report “Explaining International Broadband Leadership” the proper metric is per-household adoption of broadband, not per-capita. Using this measure moves the U.S. from 15th to 12th. Sure that is better, but still not good. But as they say, “wait there’s more.” The major reason we are 12th is not the lack of low-cost broadband or the failure of U.S. broadband providers, it’s the lack computers in U.S. households. U.S. computer ownership rates are 80 percent of the levels in the leading nations, such as Japan and Korea. I don’t care how cheap and/or fast broadband is, if households don’t have a computer, they aren’t going to subscribe to broadband. It turns out that if the U.S. had the same computer ownership rates as the top five nations in the world, it would actually rank very high in broadband adoption, fifth or sixth in the world.

But fifth or sixth is still not number one. So why aren’t we number one? And why are nations like Sweden, Japan and Korea ahead of us? There are two key reasons. First, the nations ahead of us are simply more densely populated. Indeed, one key measure of this is “loop length”, the length of the copper wires (for DSL) from the telecommunications company central office to the home. Of the 13 nations for which data are available, the U.S. has the longest loop length, approximately twice as long as the three leading nations of Japan, Korea, and Sweden. It is simply much cheaper to deploy broadband to apartment complexes with short loops than to single family homes in the suburbs with long loops.

Not only is it cheaper to deploy broadband on short loops, but on DSL broadband, it’s faster, since speeds are inversely proportionally to copper loop length.
This is one reason why the U.S. has more fiber optic broadband deployed per household than Europe. The only way U.S. telecommunications companies could get to the higher speeds some European telecos could achieve on their copper plant is to deploy fiber optic cable. In fact, doing this in the United States is a real accomplishment because we are so much more suburban than Europe. But deploying fiber is very expensive (around $1,000 per home and even more in less densely populated neighborhoods). This requires major capital investment, and it’s why it’s much more important in the United States than in Europe to avoid the kinds of regulatory policies that will limit investment in upgrading the network (as the FCC’s new proposal to regulate broadband Internet the way telephone service is regulated would do). Europeans can afford to have investment limiting regulations like unbundling because they don’t need as much investment to get to faster broadband speeds. The U.S. has to get the private sector to invest if we want even faster speeds.

But there’s another reason why some other nations are ahead, and it’s one that broadband negativists prefer to ignore. It is that many leading nations subsidized incumbent providers through grants and tax incentives to deploy more and faster broadband. For example, earlier in this decade the Swedish government invested about four times more (on a per-GDP basis) than we did in the stimulus plan (we invested $7.2 billion), with most going to the incumbent telecommunications provider to expand broadband into areas without it, rather, as may be the case in the United States, to new competitors to deploy broadband where it already is. Korea and Japan also provided tax subsidies to incumbent providers. But when this was proposed as part of the stimulus package in 2008 and early 2009, the loudest opponents were groups like Free Press, who claimed it was corporate welfare. Obviously the broadband leaders of the world didn’t think it was corporate welfare to provide their incumbent broadband providers with help to deploy broadband networks. That’s because they put the interests of their nation and their citizens above ideological antipathy to the private sector.

Finally, after painting the U.S. broadband picture in the worst possible light, the broadband negativists then turn to their real mission: regulating the broadband industry, including forcing more competition. Indeed, their mantra has been that if we just had more competition things would be better. It’s gotten to the point that this is almost accepted reality. More competition, good. Current level of competition, bad. Really? Let’s look first at facts, and then at logic. It turns out, as we found in “Explaining International Broadband Leadership,” that the United States (along with Canada) has the most intermodal broadband competition (competition between cable and telephone provided broadband) of any OECD nation. But that fact is dismissed with the argument that two competitors is not enough. But even if we had more competition — either intermodal or intramodal — would it make things better in terms of price? Hardly. By definition, the negativists’ argument that more competition would lower prices is based on only one of two possible paths. One is that current broadband companies are inefficient and unproductive and even more competition would change this. Does anyone really believe that Ivan Sidenberg, CEO of Verizon, or for that matter any broadband CEO, tolerates waste and inefficiency? Whatever one might want to say about incumbent cable and telco broadband providers, being inefficient is not usually a charge one hears. The second factor is that more competition would wring out “excess” profits and lead to lower prices. In fact, as Larry Darby, former FCC chief economist has pointed out, profit rates for the major broadband providers are actually slightly below the overall corporate profit averages. In fact, in one back-of-the-envelope calculation we did, if somehow more competition could reduce Verizon’s profits by half, the average monthly cost for broadband would fall by just one dollar. While policy-enforced competition wouldn’t lower prices in any significant way, it would lower investments as companies would get less return per customer because their fixed network costs would not go down but their revenues would. If that were to happen then our real rank in broadband would in fact decline from the top 5 to much lower.

So let’s get off the “we are terrible in broadband because of the lack of competition” line. To the extent we lag in broadband a big reason is because we have a much larger share of our population that is not digitally literate and/or can’t afford computers. Other reasons are that we have many parts of our large nation that just cost a lot to wire up, more than they provide back in revenue.

So at the end of the day, there are three things a nation can do with respect to broadband policy: abdicate, regulate, or facilitate. Unfortunately, while the Bush administration did some good things regarding
broadband policy, they largely abdicated, believing that the private sector alone would be able to get us there. In contrast, many broadband negativists (and it seems now like the Obama FCC) see the answer as regulate. If we just regulate net neutrality we will raise our rank (so the argument goes, although how imposing net neutrality regulations could have any positive impact on our rank has never been explained). If we just regulate (and move to Title 2) and require incumbents to “unbundle” their lines the negativists say our rankings will increase. Rather than abdicate or regulate, the true “third way” is to facilitate. In other words, for government to work cooperatively with the private sector on issues like spurring widespread digital literacy and computer adoption, supporting broadband deployment in high cost areas, spurring national purpose applications like health IT, e-government, and IT in schools. Sound familiar? It should, because this is the philosophical foundation of the FCC’s excellent National Broadband Plan. As such, let’s move beyond the stale and dead-end approaches of abdication and regulation and embrace facilitation. That’s what the leading broadband nations of the world did. And it’s what we need to do if we want to be the undisputed broadband leader.

ENDNOTES

