

**Testimony of Scott Wallsten, Ph.D.\***

Before the Senate Commerce Committee Hearing

“Communications, Broadband and Competitiveness: How Does the U.S. Measure Up?”

April 24, 2007

Mr. Chairman and members of the Committee, thank you for inviting me here and giving me the opportunity to testify today. My name is Scott Wallsten. I am a senior fellow and director of communications policy studies at The Progress & Freedom Foundation as well as a lecturer for Stanford University.

Notwithstanding the international rankings, the evidence indicates that the U.S. does not have a broadband problem. The remarkable investment in broadband infrastructure and rapid increases in subscribership that have taken place suggest the market is working well. Any policy or regulation intended to further accelerate deployment should clearly identify and target the market failure it is intended to mitigate. Meanwhile, government can continue to remove arbitrary barriers to competitive entry by, for example, continuing to make more spectrum available for today’s high-value uses.

The relatively low position of the United States in international broadband rankings creates consternation every time new numbers are released. These rankings, however, provide little real information. Part of the problem is that is difficult to evaluate the rankings themselves because the OECD and ITU do not explain how they derive their estimates. More importantly, many factors differ across countries that affect both the costs of supplying broadband—such as population density—and the demand for broadband—such as the ability or inability to subscribe to television services over broadband lines.

Rather than worry about rankings, *per se*, it is more useful to ask whether any market failures or other obstacles hinder broadband investment, competition, and adoption by consumers.

The evidence shows tremendous investment in broadband infrastructure. According to the FCC’s latest data, in the first six months of 2006 alone the number of broadband connections increased by 26 percent, to a total of more than 60 million high-speed connections.

Moreover, this impressive number masks the emergence of new delivery methods and hence, enhanced competition. The latest statistics show the new importance of wireless. More than 15 percent of all connections were wireless in June 2006—a figure no doubt even higher today.

In addition, broadband providers like Verizon and AT&T are rapidly deploying fiber optic networks. More than 1.3 million homes are now connected to those networks, and fiber is available to about 8 million homes.<sup>1</sup>

These are especially welcome developments given that the empirical economics research shows the importance of platform competition to spurring investment.

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\* Senior Fellow and Director of Communications Policy Studies, Progress and Freedom Foundation. Contact: 202-969-2950, [scott@wallsten.net](mailto:scott@wallsten.net).

<sup>1</sup> <http://telephonyonline.com/home/news/ftth-household-connections-041707/>

Indeed, cable companies, which provide the largest number of broadband connections, are not sitting idly by. They are expected to invest about \$15 billion this year to upgrade their IP networks. Overall, North American telecom service providers put about \$70 billion into capital expenditures in 2006, and this number is expected to increase over the next several years.<sup>2</sup>

Wireless competition is poised to become even more vigorous. The recently-completed AWS auction put more spectrum in the hands of firms wanting to provide high-speed wireless services. T-Mobile, for example, acquired enough spectrum to build out a 3G service to compete with Verizon, AT&T, and Sprint/Nextel.

The upcoming auction for spectrum in the 700 MHz band promises to bring even more options for wireless broadband access.

Congress could further stimulate wireless broadband competition by continuing to move inefficiently-used spectrum into the market so that it can migrate easily to higher-valued uses.

Given the large amount of investment, rapid adoption, and stunningly fast technological change, it is not obvious that there are market failures to correct. However, the quality of the available data is low, so it is difficult to get a solid grasp of this market.

While some groups like ConnectKY have made remarkable strides in assembling useful data, the data problem has no simple solution. It is easy to criticize existing information, but it is not easy to know what data to collect, how frequently to collect them, and how often to reconsider what information remains relevant in an industry exhibiting such rapid change. For example, the FCC currently reports how many broadband providers are in each zip code. These data are rightly criticized as flawed since a firm serving even only one customer in a zip code is counted as a broadband provider, possibly exaggerating the extent of competition. But what is the right geographic level of analysis? A census block? The number of broadband access choices available to each household? How would one measure the availability of wireless broadband? How should we go about measuring available bandwidth to consumers?

While one might be tempted to demand as much information as possible at as detailed a level as possible, it is important to remember that data collection is costly both for firms that must report it and for the agencies that must collect and process it. The more detailed the data, the more costly they are likely to be. Any new data requirements should take into account both the costs of acquiring that data and the benefits we expect to obtain from having it.

Nevertheless, FCC data collection is due for an overhaul. The FCC still requires telecom firms to report data once used for rate regulation but that no longer inform any particular regulatory purpose. It is conceivable that both the FCC and the reporting firms would be amenable to dispensing with some of the current data requirements that were intended for regulation in another era in exchange for more useful and perhaps less burdensome data that would better inform decisions in today's digital world.

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<sup>2</sup> <http://www.infonetics.com/resources/purple.shtml?msna07.cpx.2h06.nr.shtml>

To conclude, let me reiterate that the key issue in making broadband policy is not our rank in the world, but whether we can identify particular market failures or artificial barriers suppressing broadband investment and adoption and whether any policy interventions are likely to yield net benefits. The rapid growth of broadband contradicts the presence of an obvious market failure. Some policies are likely to yield unambiguous benefits, such as moving inefficiently-used spectrum to higher-valued uses. The impacts of other proposals are less clear.

And precisely because the Internet is so important, Congress should be cautious and consider very carefully any interventions in this fast-changing industry to ensure that it does not unintentionally reduce incentives to invest in the very infrastructure we all believe is so important.

Thank you.