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REVIEW & OUTLOOK

## **Broadband Breakout**

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*"I love the free market, but the fact is more concentration means less competition, and these markets are less free than they should be. And this Commission is about regulation -- regulators. I always worry a little when I hear regulators shy away from regulation talk."*

*-- Senator Byron Dorgan (D., North Dakota) addressing members of the Federal Communications Commission at a recent hearing.*

If you're wondering where the new Democratic majority in Congress is inclined to steer telecom policy, look no further than Mr. Dorgan's comment above. Note how he pays lip service to free markets while ultimately favoring more regulation for its own sake.

But more regulation is the last thing today's telecom industry needs, at least if empirical evidence is any indication. As FCC Chairman Kevin Martin reported at a Senate hearing earlier this month, the industry is now taking risks in a way it hasn't since the tech bubble burst six years ago.

"In 2006, the S&P 500 telecommunications sector was the strongest performing sector, up 32% over the previous year," said Mr. Martin. "Markets and companies are investing again, job creation in the industry is high, and in almost all cases, vigorous competition -- resulting from free-market deregulatory policies -- has provided the consumer with more, better and cheaper services to choose from."

Much of this growth has been fueled by increased broadband deployment, which makes high-speed Internet services possible. The latest government data show that broadband connections increased by 26% in the first six months of 2006 and by 52% for the full year ending in June 2006.

Also noteworthy, notes telecom analyst Scott Cleland of the Precursor Group, is that of the 11 million broadband additions in the first half of last year, 15% were cable modems, 23% were digital-subscriber lines (DSL) and 58% were of the wireless variety. Between June 2005 and June 2006, wireless broadband

subscriptions grew to 11 million from 380,000.

This gives the lie to claims that some sort of cable/DSL duopoly has hampered competition among broadband providers and limited consumer options. That's the charge of those who want "network neutrality" rules that would allow the government to dictate what companies like Verizon and AT&T can charge users of their networks. But the reality is that the telecom industry has taken advantage of this deregulatory environment to provide consumers with more choices at lower prices. Verizon's capital investments since 2000 exceed \$100 billion, and such competitors as Cingular, T-Mobile and Sprint are following suit. So are the cable companies.

It's also worth noting that the deregulatory telecom policies pushed by Mr. Martin and his immediate predecessor, Michael Powell, have accompanied a wave of mergers -- SBC/AT&T, Sprint/Nextel, Verizon/MCI, AT&T/BellSouth. Most of these marriages were opposed by consumer groups and other fans of regulation on the grounds that they would lead to fewer choices and higher costs. In fact, these combinations have created economies of scale, and customers are clearly better off.

The result has been more high-speed connections, along with greater economic productivity, but also an array of new services. The popular video-sharing Web site YouTube is barely two years old. And it wouldn't exist today but for the fact that there's enough broadband capacity to allow millions of people to view videos over the Web.

Increased broadband demand has also been good news for Internet hardware companies like Cisco and Juniper, where annual sales are up by nearly 50%. A Journal report this week notes that "North American telecom companies are projected to spend \$70 billion on new infrastructure this year," which is up 67% from 2003.

And prices are falling, by the way. Between February 2004 and December 2005, the average monthly cost for home broadband fell nearly 8%. For DSL subscribers, it fell nearly 20%. Which means that consumers are benefiting from new services and different pricing packages, as well as getting better deals.

The one sure way to stop these trends is by bogging down industry players with regulations or price controls that raise the risk that these mammoth investments will never pay off. Yet that seems to be the goal of Senator Dorgan and other Democrats such as Representative Ed Markey, another "Net neutrality" cheerleader, who is planning his own hearings. Consumers will end up paying for such policies in fewer choices and higher prices.

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