

Broadband Baloney

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American consumers are poised to reap a windfall of benefits from a new wave of broadband deployment. But you would never know it by the rhetoric of those who would have us believe that the nation is falling behind, indeed in free fall.

Looming over the horizon are heavy-handed government mandates setting arbitrary standards, speeds and build-out requirements that could favor some technologies over others, raise prices and degrade service. This would be a mistaken road to take -- although it would hardly be the first time in history that alarmists have ignored cold, hard facts in pursuit of bad policy.

Exhibit A for the alarmists are statistics from the Organization for Economic Cooperation and Development. The OECD says the U.S. has dropped from 12th in the world in broadband subscribers per 100 residents to 15th.

The OECD's methodology is seriously flawed, however. According to an analysis by the Phoenix Center, if all OECD countries including the U.S. enjoyed 100% broadband penetration -- with all homes and businesses being connected -- our rank would fall to 20th. The U.S. would be deemed a relative failure because the OECD methodology measures broadband connections per capita, putting countries with larger household sizes at a statistical disadvantage.

The OECD also overlooks that the U.S. is the largest broadband market in the world, with over 65 million subscribers -- more than twice the number of America's closest competitor. We got there because of our superior household adoption rates. According to several recent surveys, the average percentage of U.S. households taking broadband is about 42%; the EU average is 23%.

Furthermore, the OECD does not weigh a country's geographic size relative to its population density, which matters because more consumers may live farther from the pipes. Only one country above the U.S. on the OECD list (Canada) stretches from one end of a continent to another like we do. Only one country above us on this list is at least 75% rural, like the U.S. In fact, 13 of the 14 countries that the OECD ranks higher are significantly smaller than the U.S.

And if we compare many of our states individually with some countries that are allegedly beating us in the broadband race, we are actually winning. Forty-three American states have a higher household broadband adoption rate than all but five EU countries. Even

large rural western states such as Montana, Wyoming, Colorado and both Dakotas exhibit much stronger household broadband adoption rates than France or Britain. Even if we use the OECD's flawed methodology, New Jersey has a higher penetration rate than fourth-ranked Korea. Alaska is more broadband-saturated than France.

The OECD conclusions really unravel when we look at wireless services, especially Wi-Fi. One-third of the world's Wi-Fi hot spots are in the U.S., but Wi-Fi is not included in the OECD study unless it is used in a so-called "fixed wireless" setting. I can't recall ever seeing any fixed wireless users cemented into a coffee shop, airport or college campus. Most American Wi-Fi users do so with personal portable devices. It is difficult to determine how many wireless broadband users are online at any given moment, since they may not qualify as "subscribers" to anyone's service.

In short, the OECD data do not include all of the ways Americans can make high-speed connections to the Internet, therefore omitting millions of American broadband users. Europe, with its more regulatory approach, may actually end up being the laggard because of latent weaknesses in its broadband market. It lacks adequate competition among alternative broadband platforms to spur the faster speeds that consumers and an ever-expanding Internet will require.

Europe also suffers from a dearth of robust competition from cable modem and fiber. Cable penetration is only about 21% of households. In the U.S., cable is available to 94% of all households. Also, the U.S. is home to the world's fastest fiber-to-home market, with a 99% annual growth rate in subscribers compared with a relatively anemic 13% growth rate in Europe.

In fact, the European Competitive Telecommunications Association reported last fall that Europe is experiencing a significant slowdown in the annual growth rate of broadband subscriptions, falling to 14% from 23% annual growth. Growth stalled in a number of countries, including Denmark and Belgium (4% in each country). And France -- a relative star -- exhibited just 10% growth. Yet all of these nations are "ahead" of us on the much-talked-about OECD chart.

Here in the U.S., the country that is allegedly "falling behind," broadband adoption is accelerating. Government studies confirm that America's broadband growth rate has jumped from 32% per year to 52%. With new numbers expected shortly, we anticipate a continued positive trend. Criticisms of our definition of "broadband" being too lax are already irrelevant as over 50 million subscribers are in the 1.5 to 3.0 megabits-per-second "fast lane."

Our flexible and deregulatory broadband policies provide opportunities for American entrepreneurs to construct new delivery platforms enabling them to pull ahead of our international competitors. For instance, newly auctioned spectrum for advanced wireless services will spark unparalleled growth and innovation.

Soon, we will auction even more spectrum in the broadcast TV bands to spur more broadband competition. In addition, we are in the midst of testing powerful new technologies to use in spectrum located in the “white spaces” between broadcast TV channels.

This is all wonderful news for our future. In a competitive market, consumer demand compels businesses to innovate. History has proven that, just when we think we are going to “run out” of spectrum, some brilliant entrepreneur finds a way to use the airwaves more efficiently.

By some estimates, since Marconi’s first radio transmission 110 years ago spectrum capacity has doubled every two and a half years, while the cost of delivering information over wireless platforms has dropped by half every 42 months.

When the Internet was just used for email and static websites, dial-up services satisfied consumer demand. But when Napster came along, we saw a huge spike in cable modem and DSL take-up rates -- necessary tools in the art of stealing music. (Please obtain your music legally!)

Today, video applications are tugging hard on America’s broadband infrastructure. YouTube alone uses as much bandwidth today as the entire Internet did in 2000. Not surprisingly, our broadband adoption rate continues to increase concurrently with the proliferation of this latest “killer app.”

Consumers don’t buy fat pipes for their own sake; they buy applications and content that require fat pipes. As consumer demand for more bandwidth-intensive applications and content increases, so does the incentive for network owners to provide more bandwidth. While America is on the right track, we can and will do more. We are creating more competition through the construction of new delivery platforms. We are clearing away unnecessary regulatory underbrush that may inhibit investment needed to fund more competition. We are also creating an atmosphere of regulatory certainty and parity.

When it comes to broadband policy, let’s put aside flawed studies and rankings, and reject the road of regulatory stagnation. In the next few years, we will witness a tremendous explosion of entrepreneurial brilliance in the broadband market, if the government doesn’t micromanage. Belief in entrepreneurs and a light regulatory touch is the right broadband policy for America.

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