

EXECUTIVE SUMMARY

The Case For National Broadband Policy

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It's hard to pick up a business or technology magazine without reading how the United States is falling behind in broadband telecommunications. After the requisite bemoaning of our low and falling rank, these articles usually close with a vague and ill-defined plea for policy makers to do more to accelerate broadband deployment and take-up.

What is all too often missing from the debate over broadband is a case for why public policy should focus on broadband. After all, a host of other cool digital technologies have been recently introduced, but there is no talk of an iPod gap or the need for a national Blu-Ray player strategy. But broadband is different in two key ways. First, it is not just a consumer technology like the iPod or Blu-Ray player, it is "prosumer" technology that is enabling consumers to also be producers who contribute to economic growth and innovation. Second, it exhibits positive network externalities where the benefits from broadband adoption accrue not just to individual consumers, but to other broadband users and society as a whole. Because of this the social returns from investing in more broadband exceed the private returns of companies and consumers. As a result, market forces alone will not generate the societally optimal level of broadband, at least for the foreseeable future. In markets like this, public policies – in this case a proactive national broadband strategy – are needed to maximize overall societal welfare.

This paper makes the case for proactive public policy support of broadband telecommunications. It first examines whether the United States has fallen behind in broadband. It then discusses four reasons why leaving it to the market alone is likely to lead to slower deployment and take-up of broadband, especially next generation, high-speed broadband: 1) network externalities; 2) "prosumer" investment externalities; 3) competitiveness externalities; and 4) regional externalities.