

# BROADBAND: SUPPLY, DEMAND, AND THE ROLE OF REGULATORY POLICY

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**The Dilemma.** We want the speed of innovation and intensive investment in broadband that markets brought to the computer industry, not the slow pace of traditional telephony. But we also want to give consumers choice of content and choice of transport outlets for Internet Service Providers. But legislating the latter is inconsistent with the former.

**The Economic Realities.** Perhaps successful broadband models will be proprietary, bundling transport with content. Or, companies may find consumers sign up faster for a choice of content providers. But there is no point in using regulation to force unappealing business models on investors. Broadband is a risky market that will attract fewer investors if regulators increase the risk.

- **Demand uncertainty calls for markets.** There is no “killer app” for broadband yet, and no one knows what business model will lure investors to build more content or rural transport. The best policy will let providers try different bundles of services and transport, even exclusive and proprietary models.
- **Regulatory “flexibility” or political uncertainty?** Every legislative move or regulatory action adds to the uncertainty that chills investment. Policymakers cannot keep up with markets, and should step back from micromanagement.
- **Forced “open access” or unbundling equals price controls, equals less investment—just like rent control.** Forced access to broadband networks entails restraint on prices. But the reward to investors must compensate them for the risk *in their eyes*. Just meeting their costs or allowing a “reasonable” profit is not enough—they will not invest if they can make more in biotech or mobile devices. Price controls of broadband networks to spur short-term resale “competition” will have an impact on facilities investment.
- **During buildout and upgrade, facilities-based competition is vital.** Forcing cable-based broadband networks to offer open access or telephone-based networks to unbundle allows resale competition. But resellers benefiting from price controls have less incentive to build out their own networks. Many believe telephone companies hastened their rollout of DSL in response to the deployment of cable modems. Facilities are rolled out fastest when the companies can win more customers only by building out.

## For Legislative Action.

- Don’t let the FCC unbundle broadband or impose “open access” on any provider.
- Allow more wireless spectrum out on the market to spur wireless access options.
- Preempt states and localities that restrict access to rights of way.
- Learn more about the role of price regulation in local markets in discouraging fiber buildout in residential areas.