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"One-Pager" on "*Broadband: Supply, Demand and the Role of Regulatory Policy*"

"The Broadband Shibboleth"

Telecoms restructuring involves many complex and often subtle issues. As such, if policymakers ask the wrong public policy questions, then it is inevitable that they will get the wrong policy answers.

Perhaps no greater example of where policymakers are asking the wrong policy questions can be found in the broadband debate. Rather than focus on how to promote new entry and mitigate incumbents' market power for the "last mile", many policymakers apparently are more concerned about promoting broadband deployment – *regardless of the source*. In their view, the issue is not about the incumbents' ability to raise prices or restrict output over the "last mile", but whether the incumbent can provide ancillary "broadband" services in competition with other would be providers, such as cable operators, satellite systems, and mobile operators. While this "inter modal" competition sounds nice in concept, however, the reality is that it provides absolutely no contestable effect on firms' strategic behavior for their core products and services (*e.g.*, multi-channel delivered video programming, voice, *etc.*).¹ As such, the concept of "broadband" is rapidly becoming a shibboleth to mask the fundamental structural monopoly problem of the "last mile."

Indeed, while there may be a "market" for "broadband", it is *not relevant* for public policy purposes. The relevant market for policy inquiry is, and will continue to be for the foreseeable future, "last mile" access, because this is where the incumbents' market power remains. Let's be quite clear here: the recent wave of CLEC bankruptcies was not caused by "too much" competition (if so, where were the price wars a la the airline industry?); these carriers were driven out of the market because they could not achieve scale economies in sufficient time to cover their debt loads due to unjust and unreasonable entry costs and sabotage for the "last mile" created by incumbents' market power. Accordingly, focusing on the technology that converts traffic into "ones and zeros" capable of carrying voice, video and data (*i.e.*, *it's all data*) – especially as the digitalisation of the traffic continues to creep up to the customers' premise equipment (CPE) – makes no analytical sense, *because inter-modal competition does absolutely nothing to alter the fundamental economics of the "last mile."*²

More importantly, deregulation of the incumbents' "broadband" products and services will not lead to increased broadband deployment as the RBOCs claim, because a monopolist – *by definition* – will never innovate or reduce costs. Quite to the contrary, to the extent the RBOCs have invested billions of dollars to date in broadband facilities, these investments were made in direct response to the competitive pressures created by the pro-competitive provisions of the 1996 Act and the entrepreneurial spirit of the U.S. CLEC industry and *not* out of the goodness of the RBOCs' hearts. Thus, if policy-makers pre-maturely de-regulate the RBOCs, then broadband investment will not increase as the RBOCs claim but rather grind to a screeching halt as competitive pressures to innovate disappear.

In sum, the broadband debate is not about "regulation" versus "competition", because it is impossible to have deregulation without a market structure capable of sustaining competitive rivalry. Instead, if we truly want to move from "one" (*i.e.*, monopoly) to "many" (*i.e.*, competition) – the ostensible goal of the 1996 Act – then policy-makers must understand the basic economics of the local market and, equally as important, the consequences of their actions on the entry decisions of firms. If not, then policy-makers must also understand that the deliberate facilitation and tolerance of unregulated monopolists – without adequate competition to constrain their ability and incentive to exercise market power – is antithetical to U.S. consumer welfare and will simply perpetuate the current recession for years to come.

¹ The RBOCs discovered this reality over six years ago with their failed "TeleTV" experiment, where all they managed to produce was a weak competitor to the local video store by offering old re-runs of sitcoms on a "video-on-demand" basis.

² For a full exegesis of the economics of the last mile, see *Why ADCo? Why Now? An Economic Exploration into the Future of Industry Structure for the "Last Mile" in Local Telecommunications Markets*, PHOENIX CENTER POLICY PAPER SERIES NO. 12 (2001) (<http://www.phoenix-center.org/pcpp/PCPP12.pdf>).