

# Economic Policy Vignettes

---

The Center for Business and Public Policy  
November 2007

[www.msb.edu/cbpp](http://www.msb.edu/cbpp)

## Ready-Fire-Aim: Telecommunications Policy in the Primary Season\*

by John W Mayo\*\*

Sooner or later, it was bound to happen. In a primary political season “owned” by activists on both the left and right, political rhetoric is driven to excessive and extreme positions. Now it has come to telecommunication. In a recent speech, presidential candidate John Edwards has proposed an industrial policy for telecommunications akin to the rural electrification initiative of the FDR era some 75 years ago.

There are, however, significant differences between the challenges and prospects facing the modern telecommunications industry and those that faced policymakers in the Depression era. Private sector investments in electricity infrastructure during the Depression were significantly hampered by a severe lack of financial capital. Today, private sector communications firms have secured and invested tens of billions of dollars in investments designed to accelerate the deployment of broadband infrastructure throughout the United States. Virtually no evidence exists of modern capital market restrictions on private sector investments in communications. Moreover, not only is financial capital available, but individual firms are compelled to invest, lest they fall behind in the competitive struggle for technological preeminence with consumers. In short, private sector firms not only have access to capital, but seem to be racing to invest. Just last week, Sprint announced that it spent between \$6 and \$7 billion on its current network and has expanded plans to spend as much as \$5 billion over the next three years on its new high speed network. Other industry rivals, too, are accelerating their investment in new technologies. In short, the combination of ready access to capital and the competitively-driven propensity of firms to make broadband investments render the world completely different from the one that warranted President Roosevelt’s decision to engage in a massive governmental investment program.

Of course, continued public sector oversight of the telecommunications industry should continue, and more overt involvement may occasionally be warranted. Among economists and in centrist political circles, however, the onus typically lies on advocates for such involvement to demonstrate the presence of a market failure that prevents private sector solutions. The nominal rationale offered by

the Edwards camp is the perception that the US lags other countries in broadband penetration. Such arguments, however, belie the recent successes in both broadband deployment and subscription in the United States. In 2000, there were less than 5 million broadband lines in the United States. In contrast, today there are over 65 million broadband lines in service, a number which grew by a remarkable 50 percent in the most recently recorded twelve month period.

Beyond the growth of broadband deployment, this period has also witnessed continued declines in the price of broadband for consumers and more choice as consumers increasingly may choose from among competing broadband networks. This has led to a dramatic increase in the proportion of broadband users in the United States. Today, nearly one-half of all households in America subscribe to broadband service according to the most recent Pew Foundation Survey, nearly the same percentage that subscribed to *any* internet access in 2000. And while broadband subscribership rates are highest among the young (63 percent for those less than 30 years old), the educated (70 percent for college graduates) and the affluent (76 percent for households with incomes greater than \$75k), the trends for other groups are very encouraging. For example, broadband subscription among black households has nearly tripled to 40 percent within the past two years, far eclipsing growth rates among white households. Similarly, households with incomes less than \$30k have the same subscription rates (30 percent) today as the average across all Americans in 2005. While legitimate concerns exist regarding the availability and affordability of broadband to the poor, these concerns are better suited to a targeted system focused on providing relief to the needy rather than an unnecessarily expensive depression-era industrial policy. In short, there is no persuasive case of market failure that prudently warrants a large scale industrial policy for broadband deployment.

While the introduction of telecommunications policy into the presidential dialog is surely welcome, it appears that judicious and progressive policy proposals may not emerge until after the primary season. Until then, expect more "firing" than "aiming."

---

\* A version of this article appeared in the *New Hampshire Business Review*, Sept. 14-27, 2007.

\*\*John W. Mayo is Professor of Economics, Business and Public Policy, Georgetown University, McDonough School of Business.