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Economists' Statement on U.S. Broadband Policy

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Broadband, or high-speed access to the Internet, has generated significant economic benefits. Certain regulations, however, are slowing investment and deterring entry into the broadband market. In this statement, we make the following two recommendations that would remedy these regulatory defects and thereby lower artificial barriers to competitive provision of broadband services:

Recommendation 1: *Congress should eliminate local franchising regulations, which serve as a barrier to new entry.*

Recommendation 2: *Congress and the Federal Communications Commission should make more spectrum available to private parties and allow them to use it or trade the right to use it, so that spectrum will go to its highest-valued uses.*

The bottom line is that investment in broadband should be as easy as possible. Regulations that primarily protect incumbents or serve as barriers to entry should be removed.

Local Regulation

Some firms that want to provide broadband services currently must obtain local approval and access to rights of way, pay fees, and meet regulatory obligations regarding service provision. These obstacles can slow investment and deter entry.

For example, if a firm wants to provide video services over broadband lines it must negotiate with every franchising authority in its coverage area. The FCC (1997) has noted that approximately 33,000 municipalities in the U.S. have the authority to issue franchise licenses. Dealing with every city separately is slow and costly, and discourages competitive entry. Such delay can reduce consumer welfare. Research by the Government Accountability Office suggests that telecommunications service prices were 15 to 41 percent lower in cities with the new entrants than in cities without (GAO 2004), and that cable prices were about 15 percent lower in cities with wireline video competition (GAO 2005).

What might a better regulatory environment look like? It would not be totally bereft of regulation, but it should not include franchising or other rules that do little more than block or delay entry.

Congress should preempt local and state governments from requiring providers to obtain local franchises to offer new services. There is no economic rationale for allowing cities to control who can provide broadband or related services.

At the same time, however, Congress should recognize that many municipalities rely on franchise fees, but it should insist that fees be non-discriminatory. Ideally, any fees would reflect costs imposed by firms on the city.

Spectrum allocation

High-speed Internet connections can also be provided using wireless networks. Much of the potentially most valuable spectrum, however, is not available for its most productive uses (Kwerel and Williams 2002). The FCC should make additional licensed spectrum available for flexible use as soon as possible and allow it to be traded so that spectrum can be allocated to its highest-valued uses.

Removing the existing artificial scarcities could lead to improved competition not only among conventional wireless services, but also to the creation of new services, including alternative methods of high-speed Internet access.

Conclusion

We have offered two recommendations for removing artificial regulatory barriers to the operation of an efficient market for broadband services. The first recommendation aims to reduce local regulatory burdens that arbitrarily restrict broadband entry and investment. The second recommendation aims to change federal policy so as to reduce barriers to wireless innovation and entry, thereby fostering the development of wireless broadband options.

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