

A White Paper

Don't be Fooled by the National Broadband Policy "Straw Man" *Exposing Three Hidden Policy Biases of Broadband Policy Proponents*

By Scott Cleland*

President, Precursor LLC
Chairman, NetCompetition.org**
sclerland@precursor.com

September 9, 2008

Abstract. Don't be fooled by the straw man argument and hidden biases in the assumptions undergirding the call for a more government-centric national broadband policy. Their argument cannot withstand common sense, penetrating analysis, or 'open' public scrutiny. There are at least three major hidden biases in their pillar assumptions, that when exposed, make it clear that proponents of a more government-centric national broadband policy need to go back to the drawing board to find a legitimate rationale for their policy approach.

- **Hidden Bias #1: Denial that free market competition works.** The OECD broadband rankings assume every nation has, or should have, a national broadband industrial policy and that a free market policy approach cannot work – because the OECD tracks only industrial policy measures and no market-relevant measures of broadband progress. If more market relevant measures were included in the rankings, the U.S.' unique intermodal broadband success would put the U.S. at the top of the rankings and force OECD nations to revisit their industrial policy orthodoxy.
- **Hidden Bias #2: Denial that network utilization/cost matter in broadband policymaking.** Proponents wrongly assume that the only goal for broadband is and should be speed. They seek to avoid any discussion of network utilization, cost, or who pays versus who benefits -- because it would expose the policy as a Silicon Valley 'open checkbook' scheme to get average consumers, broadband providers and taxpayers to subsidize Silicon Valley billionaires and bandwidth hogs.
- **Hidden Bias #3: Denial of wireless broadband competition and consumer demand for mobility.** The case for a more government-centric national broadband policy depends on the predicate of an 'opoly' broadband market which requires denial of the existence of wireless broadband competition and consumer demand for broadband mobility. Only by convincing people that broadband competition cannot work can they justify a new more government-centric national broadband policy.

Bottom line: The case for a more government-centric national broadband policy depends on no one challenging its fragile pillar assumptions. Proponents know their 'straw man' argument is a superficially-appealing, but substantively weak. Any rigorous inquiry into: progress measurement frameworks, network utilization/cost, or intermodal competition, will expose the obvious weakness of their policy argument. Let the policy-making by acclamation end, and the real and substantive policy debate begin.

**Bio:* <http://netcompetition.org/index.php/go/about-us-chairman/>

** *NetCompetition.org is a free market e-forum funded by broadband interests.*

I. Introduction:

Much of the case for a new national broadband policy is really an elaborately dressed-up “straw man” argument that rhetorically has fooled many from a distance, but when you look at the case up close and expose it to the heat of rigorous analysis – the case for a more government-centric national broadband policy goes up in flames. Much of the acrimony in the broadband debate legitimately stems from the fundamental disagreement over the hidden biases and bogus assumptions undergirding the political clarion call for a more government-centric national broadband policy. This paper spotlights three hidden and biased, core assumptions in the broadband policy debate, all which heavily skew the debate to a conclusion that a more government-centric national broadband policy is necessary. When exposed, it becomes clearer why the current free market approach, offers the superior broadband policy trajectory.

Normally those who truly seek to advance a national policy, and not score political points, are upfront, explicit and open about the fundamental assumptions underlying their position. Not so here. Many of those advocating a new national broadband policy have not been open or forthright with the fundamental biases inherent in their core policy assumptions. To ever reach consensus, the debate has to work on building understanding and consensus from the foundation up. Unfortunately, the fundamental policy choices inherent in this debate have been buried and hidden in biased assumptions with the hope that no one would notice. Well someone noticed. The purpose of this white paper is to expose the ‘straw man’ argument and hidden biases behind the call for a more government-centric national broadband policy – so that wise well-informed policy making can occur.

Regardless of efforts to paper over differences, the broadband debate is really a fundamental philosophical/ideological debate over the vision and trajectory for next-generation communications policy. Should U.S. communications policy go in the direction of promoting a:

- Government-regulated/funded/owned broadband commons? or
- Broadband free-market where competition and private property are respected and encouraged?

However well-intentioned, ‘post-partisan’ attempts to forge a two-headed compromise between diametrically-opposed broadband policy visions, are unlikely to work. Remember the wisdom of the well-known American Indian proverb – “*one who chases two rabbits -- catches none.*”

II. The Three Hidden Policy Biases in Broadband Policy Debate

1. The Hidden Anti-Free-Market Broadband Measurement Bias

The current de facto broadband measurement framework, the OECD baseline, is structurally biased toward promoting industrial policy over free market competition policy. The old adage is true here: “*If you have a hammer everything looks like a nail.*” All of the OECD’s broadband measures, which drive the OECD broadband rankings, are designed by, and skewed implicitly toward, evaluating and promoting government-driven industrial policies and regulation. They cannot, and do not even try to measure the relative effectiveness, merit or performance of free market competition policies.

The OECD’s broadband measures for ranking are: penetration, coverage, prices, speeds/services, and competition. These OECD measures all presume a monopoly communications infrastructure predicate where:

- ‘Competition’ is assumed to be regulator-managed resale-competition of an incumbent monopoly infrastructure;

- ‘Price’ is assumed to be only the customer direct public payment, not the total price/cost to the consumer including all implicit and explicit subsidies; and
- Government regulation and subsidies are assumed to be necessary for, and central to, broadband deployment everywhere and for everyone, not just for high-cost or disadvantaged segments.

The United States has adopted, and is proving, the viability and success of a completely different communications policy premise, free market, facilities-based, inter-modal, broadband competition. **This free market success is such a threat to industrial policy orthodoxy that proponents of a more government-centric broadband policy, refuse to even call a free market broadband policy -- a national broadband policy at all.** They somehow think that by refusing to acknowledge the existence of current free market Administration national broadband policy, and by refusing to acknowledge the existence of the current congressional free market Internet policy in law, they can somehow win the broadband policy debate by ‘straw man’ acclamation and default. This policy making tactic is about as persuasive as a pre-schooler threatening to hold their breath until they get their way.

Since the tacit policy premise of the OECD is that free market facilities-based competition won’t/can’t work -- it is not surprising that it never occurred to the OECD or others to track and rank measures relevant to free market competition.

Why are there no free market broadband measures? Why don’t broadband policy proponents track and rank market-relevant measures that users and taxpayers care about -- like:

- **Network capacity utilization?** (Whose networks are used the most/least? to avoid waste.)
- **Cost efficiency?** (Whose networks get the most efficiency/innovation for their money?)
- **Network reliability?** (Whose economy-critical infrastructures are the most reliable?)
- **Network redundancy?** (Whose infrastructure can withstand the most disastrous disruption?)
- **Total/avg subsidies?** –implicit/explicit? (What is the true, all-in cost/price per subscriber?)
- **Public/private ratio?** subsidies/customer cost (How much do networks depend on government?)
- **Return on investment?** (Whose networks are most market efficient/friendly?)

To be blunt, the current OECD baseline is a rigged game in favor of those who have the most activist/subsidized Government industrial policy geared to maximize the OECD industrial policy broadband measures. It is not an objective broadband measurement framework to help set America’s national broadband policy, **because under more market-relevant measures, America would be the hands down broadband leader in the OECD rankings.** Industrial policy advocates will oppose the use of market-relevant measures because it threatens their presupposition that industrial policy is the only policy option for promoting broadband nationally.

2. The Hidden Bias for Expensive Speed over Affordable Access.

What may be **the worst chicanery in this debate** is the hidden bias in average price comparisons. Proponents have contrived price comparisons that hide the relative cost extravagance inherent in their policy approach. How is that? Proponents have contrived a ranking based on average price per highest *potential* speed -- not *actual* use or *real* network utilization. The fundamental bias in this approach is that it pre-supposes that infrastructure should be the fastest possible – without any regard to whether or not that infrastructure would be sufficiently utilized to warrant the extra cost, or who should shoulder the extra cost burden. In other words, **price-per-potential speed is inherently an ‘open’ checkbook policy**, an irresponsible bottomless commitment of resources approach – because proponents are spending other peoples’ money, -- i.e. consumers’, broadband shareholders’ and taxpayers’ money.

- The price-per-*potential* approach is better know as the *Field of Dreams* “Build it and they will come” approach to broadband deployment. While the idea may have Hollywood and utopian fantasy appeal, fantasy economics can be highly destructive in the real world.

- In the 1990's policy makers de facto followed a "build it and they will come" policy, and this a price-per-*potential* approach to infrastructure directly contributed to the Internet bubble that led to over a dozen unused 'national' fiber backbones, a slew of telecom company bankruptcies, and trillions of dollars in losses for American investors and pensioners.

My point here is very important. There is no discussion in this broadband policy debate of network utilization-efficiency or cost effectiveness. If cost was compared with usage/utilization in this debate -- it would require a discussion of cost effectiveness, fiscal responsibility and accountability. The *Field of Dreams* crowd wants no financial or operational reality to rain on their 'open' checkbook parade.

Bandwidth speed and usage/capacity are not synonymous like many would like people to believe. Those interests who favor the fastest networks possible, (i.e. Silicon Valley because that means others subsidize their R&D and distribution costs), tend to gloss over usage and capacity issues because that introduces cost fairness or usage pricing into the broadband debate. They frame the debate with the heavy bias that speed is the only thing that matters – capacity and cost issues are assumed away or deliberately brushed under the rug. Yes speed matters, but so does cost, network utilization, cost-effectiveness and other fiscal issues of who pays. In a word, responsibility matters.

Let's be blunt again. The fastest network is the most expensive network. And those who want and demand a gold-plated, fastest network possible, i.e. Silicon Valley, are steadfastly against paying for any of it. They seek net neutrality which allows them to shift the cost burden to others and they seek free use of the airwaves to shift the cost burden to others. Another reason that this broadband debate is acrimonious is that it is basically a Silicon Valley corporate welfare scheme dressed up as 'national broadband policy.' Silicon Valley wants broadband carriers/shareholders, consumers and taxpayers to spend billions of dollars on the world's fastest broadest broadband network in order to subsidize their R&D, the distribution of their future applications, and their profits – without any material Silicon Valley contribution to the cost commensurate with their benefit. Why should those who profit the most from fast broadband deployment/investment pay the least for it? That's 'suckernomics' not sound public policy.

Why hasn't anyone stood up for the consumer and said, like the proverbial little boy did, that the Silicon Valley 'innovation' "emperor has no clothes!" i.e. that faster networks will cost everybody more regardless. Do all users want and need the fastest networks and the most capacity? No of course not. It's a small minority (about 1%) of companies and users who are extreme bandwidth hogs who want everybody else (about 99%) to pick up the tab for their gluttonous appetite for bandwidth. Why don't those who profess to support internet fairness/net neutrality actually walk the walk and promote a debate that says that those who use the most broadband capacity and the fastest broadband – should pay commensurately more than the low usage average user? What a concept! Pay for what one uses!

Why does 'innovation policy' and 'innovation economics' have to mean a huge wealth transfer from the American consumer to Silicon Valley billionaires? Who agreed to that? No one outside Silicon Valley did because proponents of a broadband strategy don't want their hidden biases or assumptions out in the 'sunlight' for all to see. Having an 'open' debate about the true cost of 'openness' and Silicon Valley innovation subsidies -- would be a political loser -- and they know it. That's why they hide the truth behind the biases underlying the broadband debate. That's also why they hide behind coalitions called "Internet for Everyone" when their gluttonous demands for *potential* bandwidth – drives the cost of the network up and up – inevitably making it less affordable for those least able to afford it.

Despite the rhetoric to contrary, proponents of a national broadband policy want to put the priority of a fast network to satisfy Silicon Valley -- ahead of the priority of promoting universal broadband for all Americans. Simply, the cost reality of the fastest networks policy for those who can afford to pay their own way, takes away resources from those disadvantaged who can least afford broadband access.

3. The Hidden Bias for Stationary Broadband over Broadband Wireless.

Another hidden bias that advocates of a Government-centric national broadband policy have is their steadfast refusal to acknowledge that competition exists, in that wireless broadband, satellite broadband, and WiFi/WiMax are, or can be, competitors to stationary broadband (cable modems or telco DSL/fiber). Why do proponents refuse to acknowledge the everyday reality of the well-known iPhone or smartphones, ubiquitous laptop air-cards, satellite dishes, or someone using the Internet at a Starbucks or a hotel without a cable? Because to acknowledge everyday reality, would force them to abandon their fantasy mantra that an alleged broadband mono/duopoly is the scourge of Internet civilization. Without an “opoly” to chant, they know no one will listen to their radical plans to ditch current free market competition policy in favor of a more government-centric national broadband policy.

Like an ostrich with its head in the sand, proponents ignore the existence of tens of millions of Americans that access the Internet wirelessly from WiFi for free, or from the four *national* wireless broadband competitors: AT&T, Verizon, Sprint, and T-Mobile for a fee, or from two satellite broadband competitors, Hughes and Wild Blue for a fee. To acknowledge the existence of these stubborn facts and reality would mean abandoning their call for a more government-centric broadband industrial policy.

Moreover, to argue that wireless broadband is not a competitor to stationary broadband **ignores the overwhelming evidence of consumer demand** which shows consumers want mobility as much or more than stationary communications.

- Americans use substantially more wireless cell phone access lines than wire line access lines -- per FCC statistics.
- Americans use substantially more wireless minutes of use than wire line minutes of use -- per FCC statistics.
- Wireless broadband is the fastest growing segment of broadband adoption in America by far -- per FCC statistics.

To cling to the notion that Americans only want stationary broadband speed and do not also want broadband mobility as much or more -- simply does not match the overwhelming consumer demand evidence cited above. The silliness of ignoring what any average American knows and sees everyday – belies how badly proponents want to keep this policy bias hidden and out of the public debate.

In short, if proponents of a super fast stationary broadband network are to succeed, they have to ignore and deny that consumers demand and value mobility from broadband, and they have to deny that wireless broadband is, or could be, a competitive substitute for DSL and cable modems. The facts and reality simply do not fit their desired ‘opoly’ narrative to scare everyone into abandoning free market competition in favor of a more government-centric national broadband policy.

III. Conclusion: *(Same text as the Abstract.)*

Don't be fooled by the straw man argument and hidden biases in the assumptions undergirding the call for a more government-centric national broadband policy. Their argument cannot withstand common sense, penetrating analysis, or ‘open’ public scrutiny. There are at least three major hidden biases in their pillar assumptions, that when exposed, make it clear that proponents of a more government-centric national broadband policy need to go back to the drawing board to find a legitimate rationale for their policy approach.

- **Hidden Bias #1: Denial that free market competition works.** The OECD broadband rankings assume every nation has, or should have, a national broadband industrial policy and that a free

market policy approach cannot work – because the OECD tracks only industrial policy measures and no market-relevant measures of broadband progress. If more market-relevant measures were included in the rankings, the U.S.’ unique intermodal broadband success would put the U.S. at the top of the rankings and force OECD nations to revisit their industrial policy orthodoxy.

- **Hidden Bias #2: Denial that network utilization/cost matter in broadband policymaking.** Proponents wrongly assume that the only goal for broadband is and should be speed. They seek to avoid any discussion of network utilization, cost, or who pays versus who benefits -- because it would expose the policy as a Silicon Valley ‘open checkbook’ scheme to get average consumers, broadband providers and taxpayers to subsidize Silicon Valley billionaires and bandwidth hogs.
- **Hidden Bias #3: Denial of wireless broadband competition and consumer demand for mobility.** The case for a more government-centric national broadband policy depends on the predicate of an ‘opoly’ broadband market, which requires denial of the existence of wireless broadband competition and consumer demand for broadband mobility. Only by convincing people that broadband competition cannot work can they justify a new more government-centric national broadband policy.

Bottom line: The case for a more government-centric national broadband policy depends on no one challenging its fragile pillar assumptions. Proponents know their ‘straw man’ argument is a superficially-appealing, but substantively weak. Any rigorous inquiry into: progress measurement frameworks, network utilization/cost, or intermodal competition, will expose the obvious weakness of their policy argument. Let the policy-making by acclamation end, and the real and substantive policy debate begin.

* * * * *