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# Regulation and Investment in the Communications Industry

NCSL, Fall Forum

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## ■ Information Technology and Innovation Foundation

The Information Technology and Innovation Foundation (ITIF) is a Washington, D.C.-based think tank at the cutting edge of designing innovation policies and exploring how advances in information technology will create new opportunities to boost economic growth and improve quality of life. ITIF focuses on:

- Innovation processes, policy, and metrics
- Science policy related to economic growth
- E-commerce, e-government, e-voting, e-health
- IT and economic productivity
- Innovation and trade policy
- Telecommunications policy



# ■ Today's Presentation



1

- **Why is This Important?**

2

- **How Should We Think About Competition in Communications?**

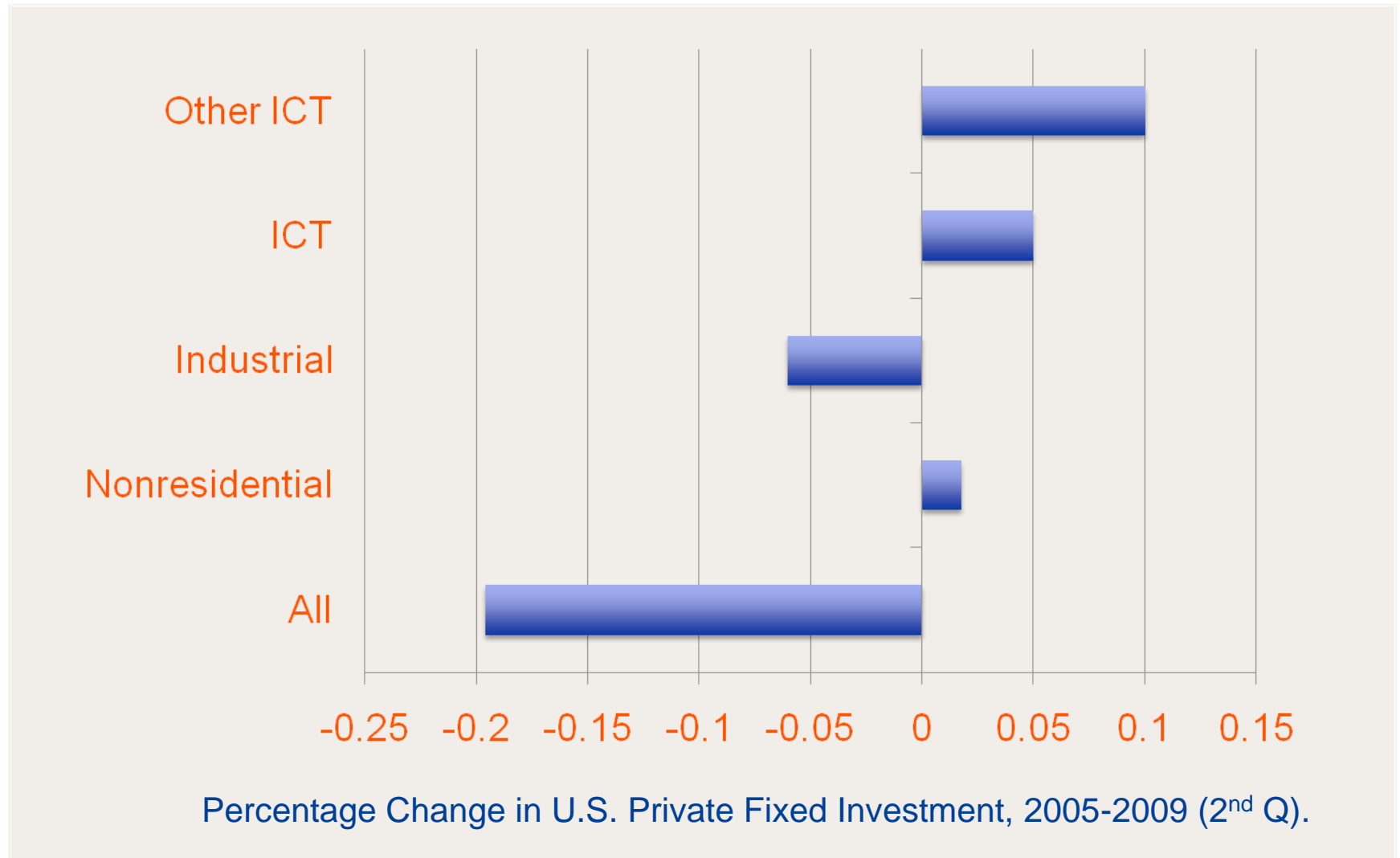
3

- **How is the U.S. Doing on Telecom Competition?**

4

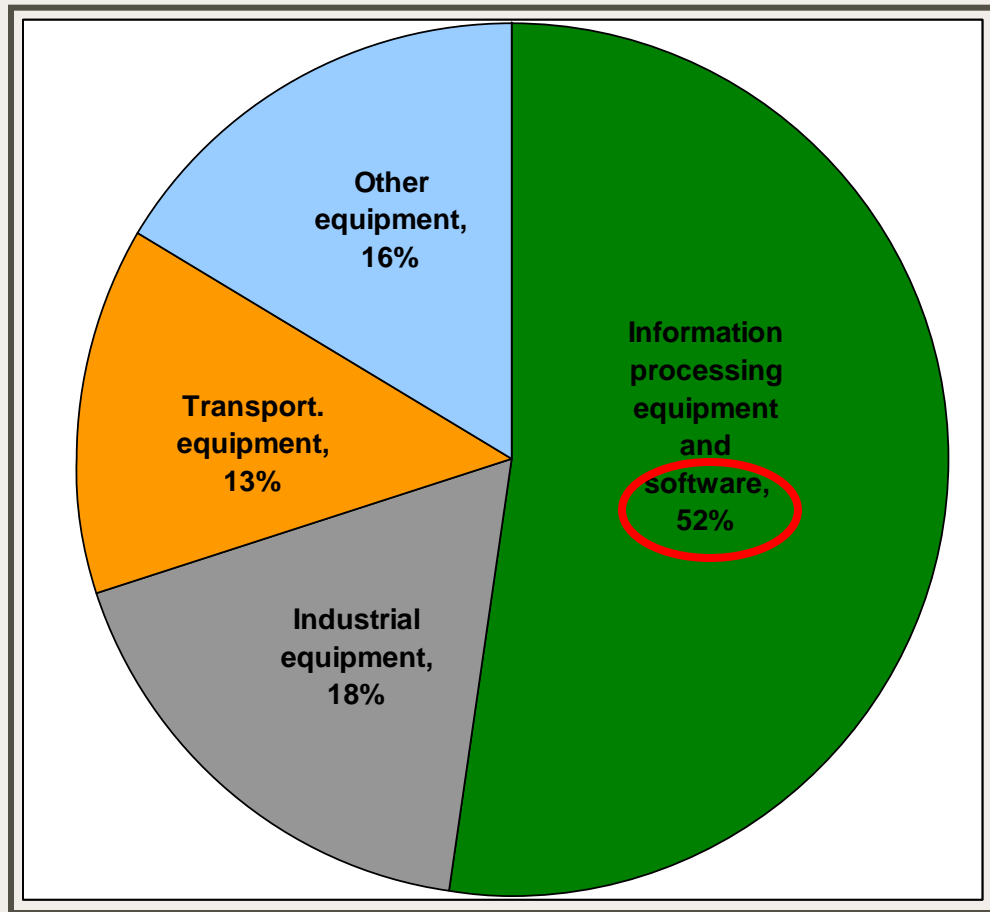
- **Policy Issues**

■ In the U.S. ICT is the Only Major Investment Category Growing



# ■ Investment in IT Equipment and Software

## ■ Share of Private Investment in Equipment (Q1 2008)

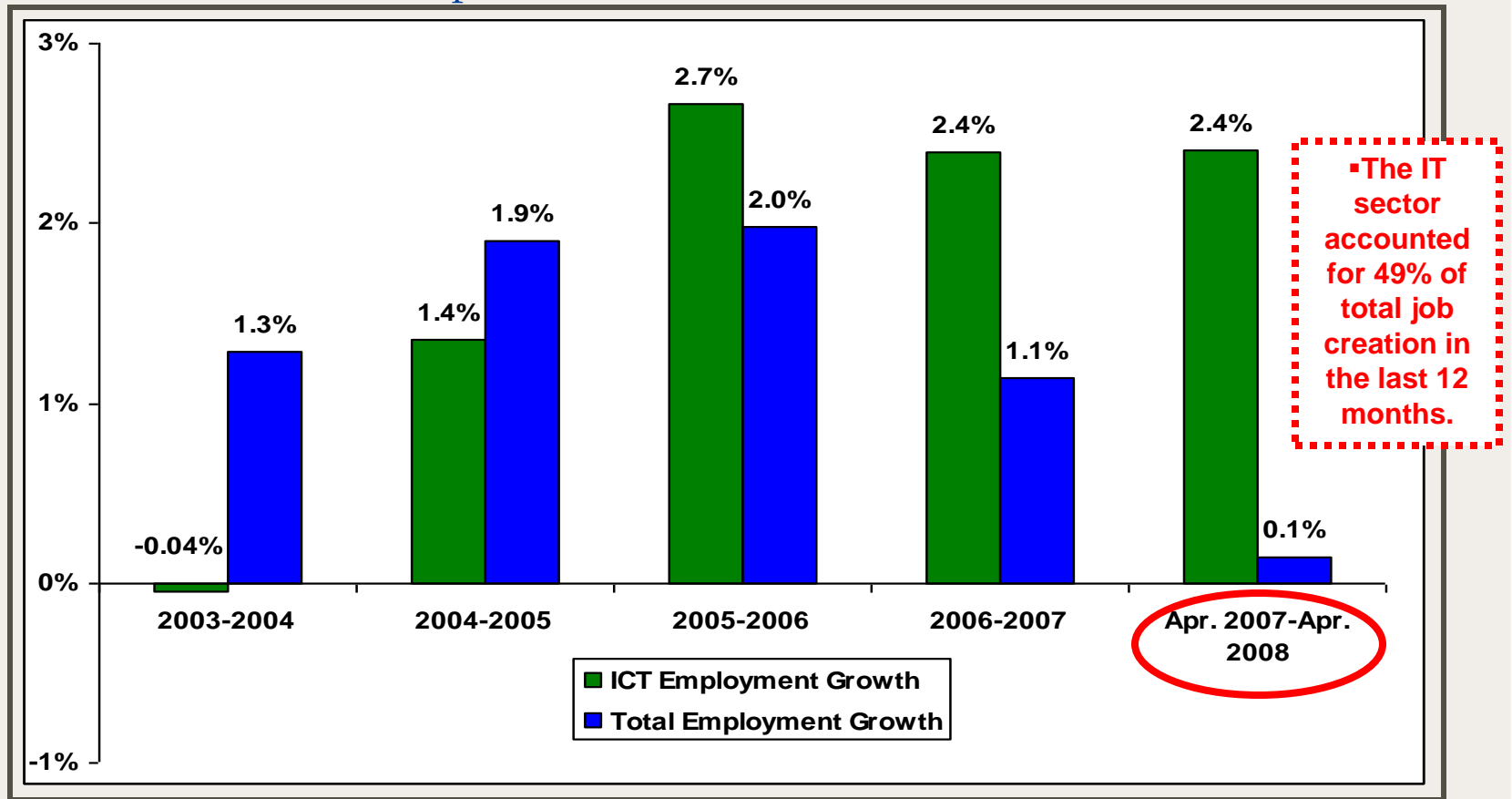


■ Information processing equipment and software (including telecom equipment accounts for more than 52% of the total up from 42% in 1995.

■ Source: U.S. Department of Commerce, Bureau of Economic Analysis

## ■ IT Job Creation in a Slowing Economy

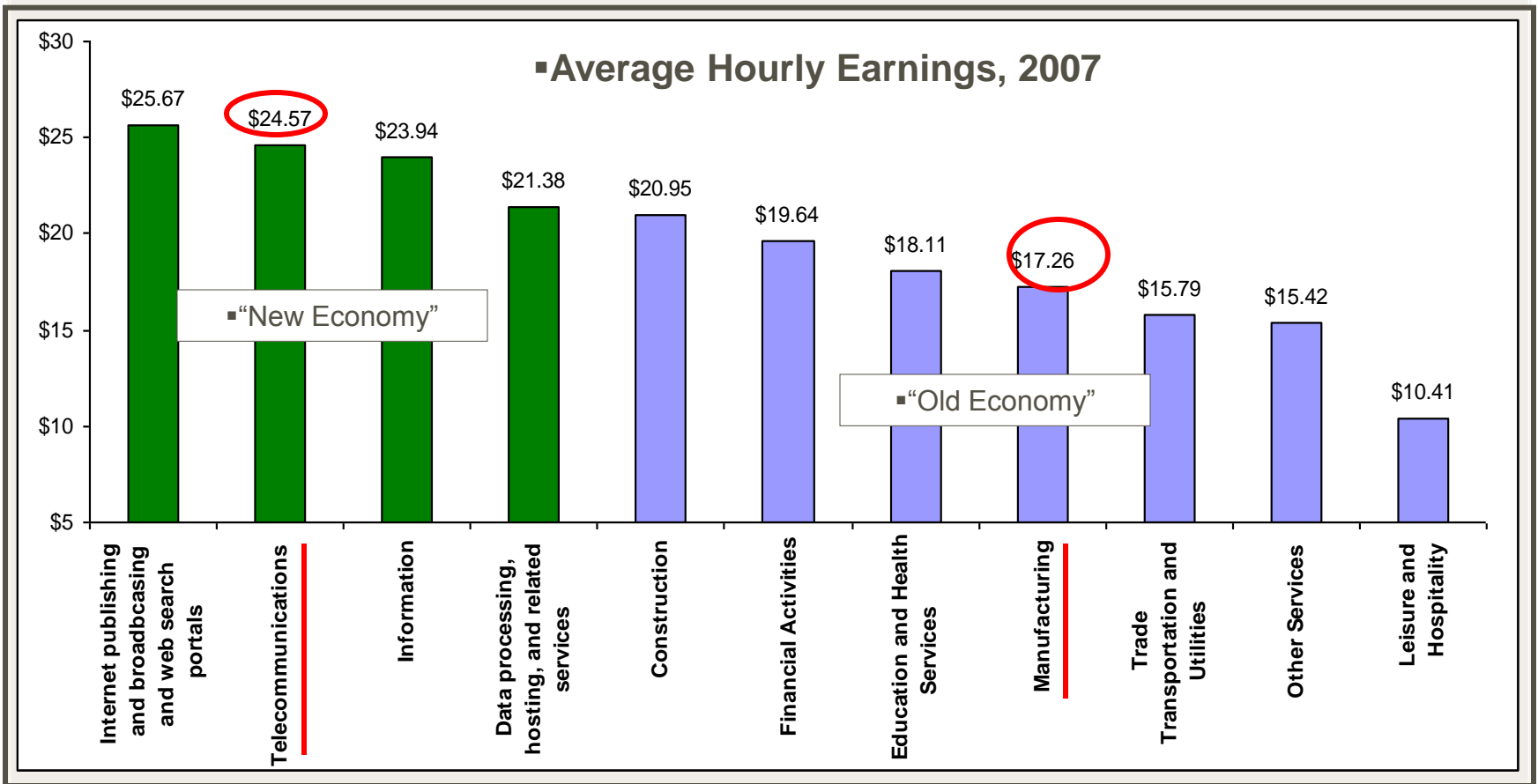
- As job growth has slowed in the rest of the economy, employment in the IT sector has continued to expand.



■ Source: Bureau of Labor Statistics

## ■ Telecom and IT Jobs Pay High Wages

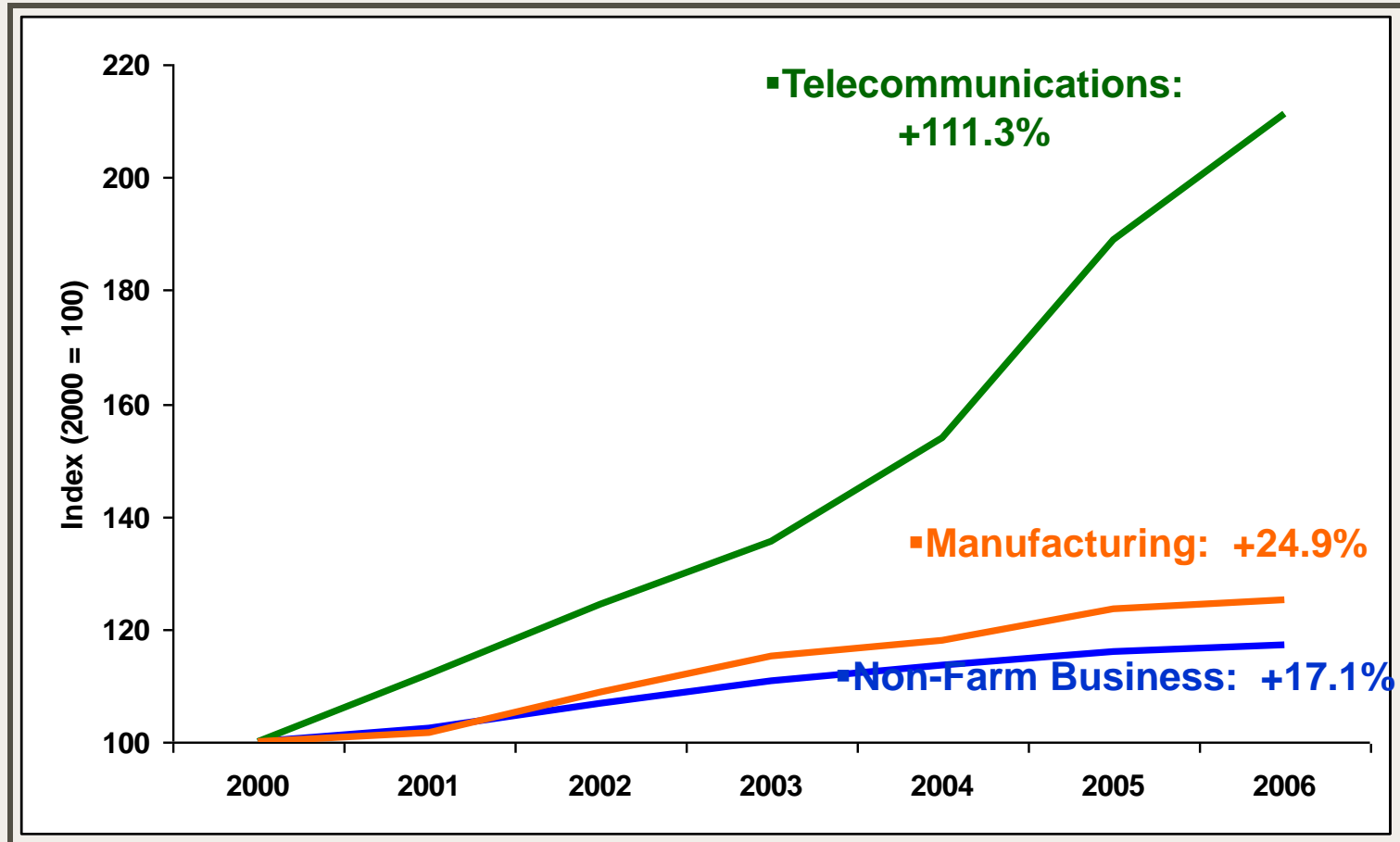
- IT jobs are high-paying jobs. Average hourly earnings in telecommunications are 42% higher than in manufacturing.



■ Source: Bureau of Labor Statistics

## ■ Increasing Productivity

- Telecom sector productivity is rising much faster than in the rest of the economy, more than doubling since 2000.

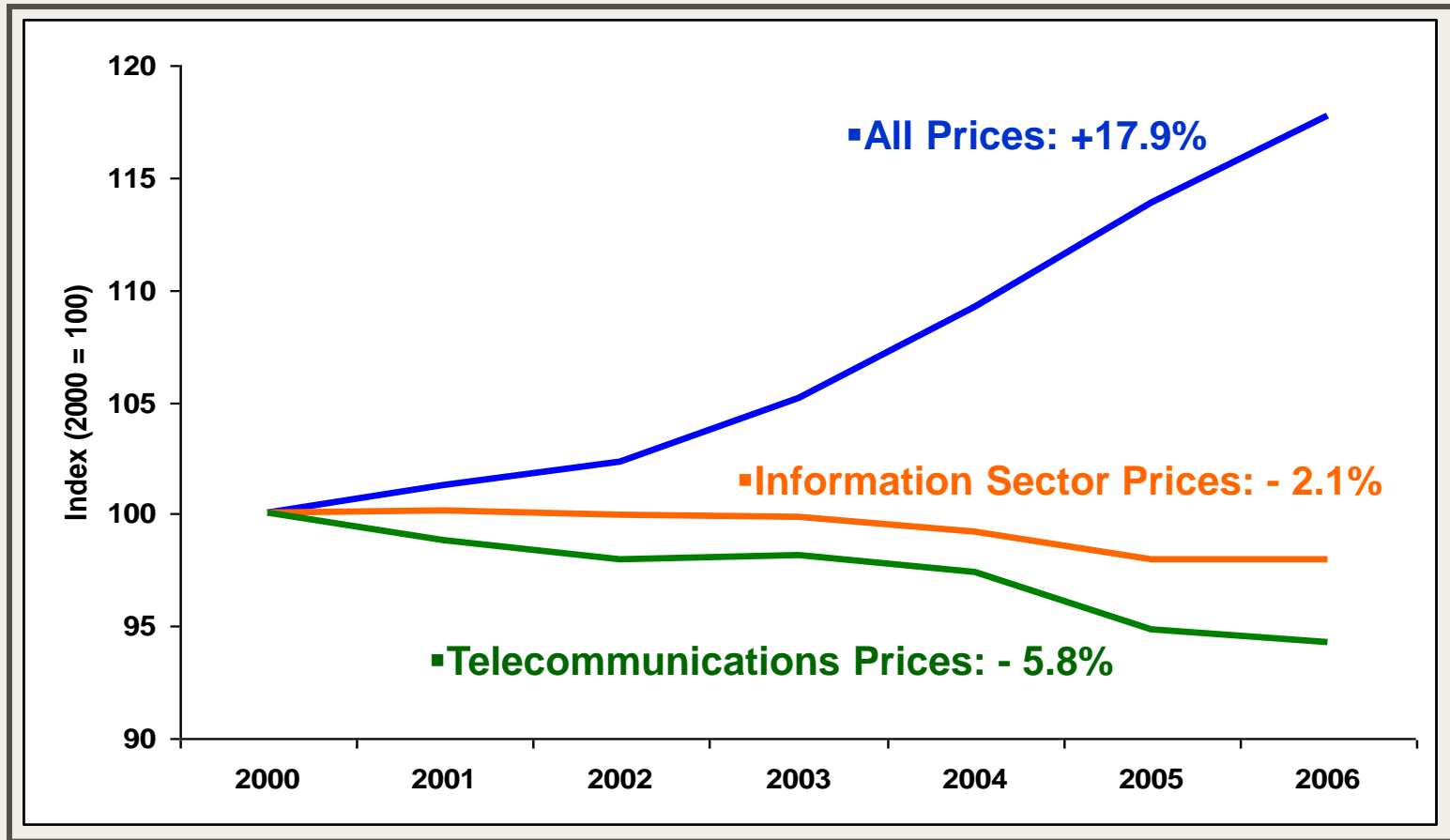


■ Source: Bureau of Labor Statistics



## ■ Reducing Prices

- The CPI is up 18 percent since 2000, but telecom prices are down 6 percent, falling even faster than IT prices overall.



■ Source: Bureau of Labor Statistics



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▪ Policy Issues

## ■ Communications Industry is Not the “Widget” Industry

- How many gas pipes, electric lines, and sewer pipes to your house?
- We have two main broadband “pipes” to most houses because telephone and coaxial cables could be upgraded to transmit digital data.
- As the FCC National Broadband Plan states, *“Building broadband networks—especially wireline—requires large fixed and sunk investments. Consequently, the industry will probably always have a relatively small number of facilities-based competitors, at least for wireline service.”*

## ■ Robust Competition is Possible with Few Competitors

- As the FCC Broadband Plan states “The lack of a large number of wireline, facilities-based providers does not necessarily mean competition among broad-band providers is inadequate. While older economic models of competition emphasized the danger of tacit collusion with a small number of rivals, economists today recognize that coordination is possible but not inevitable under such circumstances....Moreover, modern analyses find that markets with a small number of participants can perform competitively.”
- Department of Justice states that the critical question is not “some abstract notion of whether or not broadband markets are ‘competitive’” but rather “whether there are policy levers [around competition policy] that can be used to produce superior outcomes.”

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## ■ The U.S. has Among the Highest Amount of Intermodal Competition (2007)

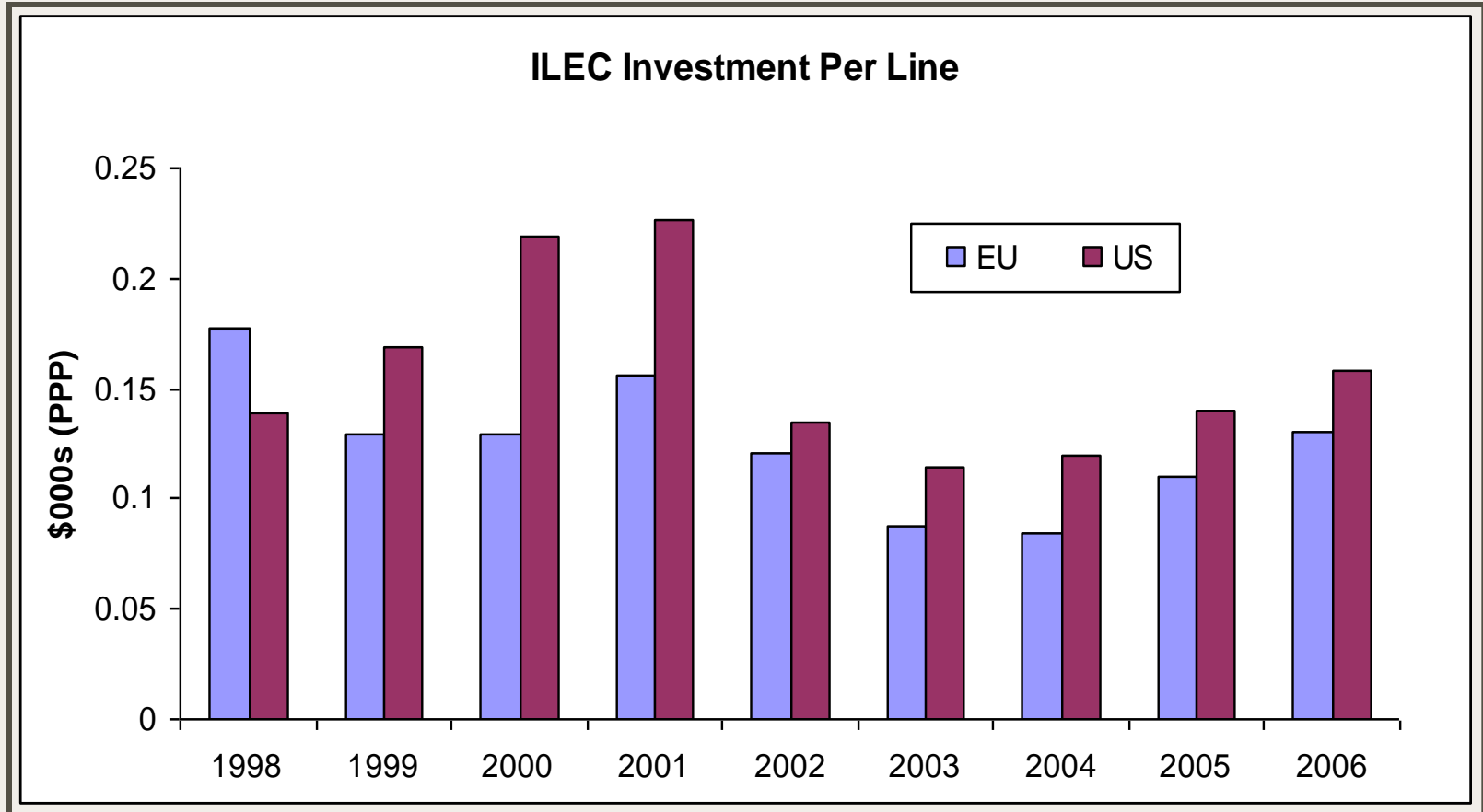
Nation	Telecom (DSL and Fiber)	Cable
Greece	100%	0%
Italy	100%	0%
Turkey	99%	1%
Iceland	98%	0%
France	95%	5%
Germany	95%	5%
Luxembourg	89%	11%
New Zealand	89%	7%
Japan	86%	14%
Finland	84%	13%
Norway	82%	15%
Australia	81%	15%
Spain	79%	21%
Sweden	79%	19%
United Kingdom	78%	22%
Mexico	76%	21%
Slovak Republic	73%	12%
Ireland	72%	11%
Denmark	70%	28%
Poland	69%	30%
Switzerland	67%	30%
South Korea	65%	35%
Austria	62%	35%
Netherlands	62%	38%
Portugal	62%	37%
Belgium	61%	39%
Hungary	58%	40%
Canada	48%	52%
Czech Republic	47%	21%
United States	45%	52%

## ■ Competition Appears to be Driving Investment

- The FCC concluded in its National Broadband Plan report:
  - “Indeed, competition appears to have induced broadband providers to invest in network upgrades. Cable and telephone companies invested about \$48 billion in capital expenditures in 2008 and about \$40 billion in 2009.... wireline broadband capital expenditures were about \$20 billion in 2008 and expected to be about \$18 billion in 2009.”
  - Typical advertised download speeds to which consumers subscribe have grown at approximately 20% annually for the last 10 years.

## ■ Network Investment: United States vs. Europe

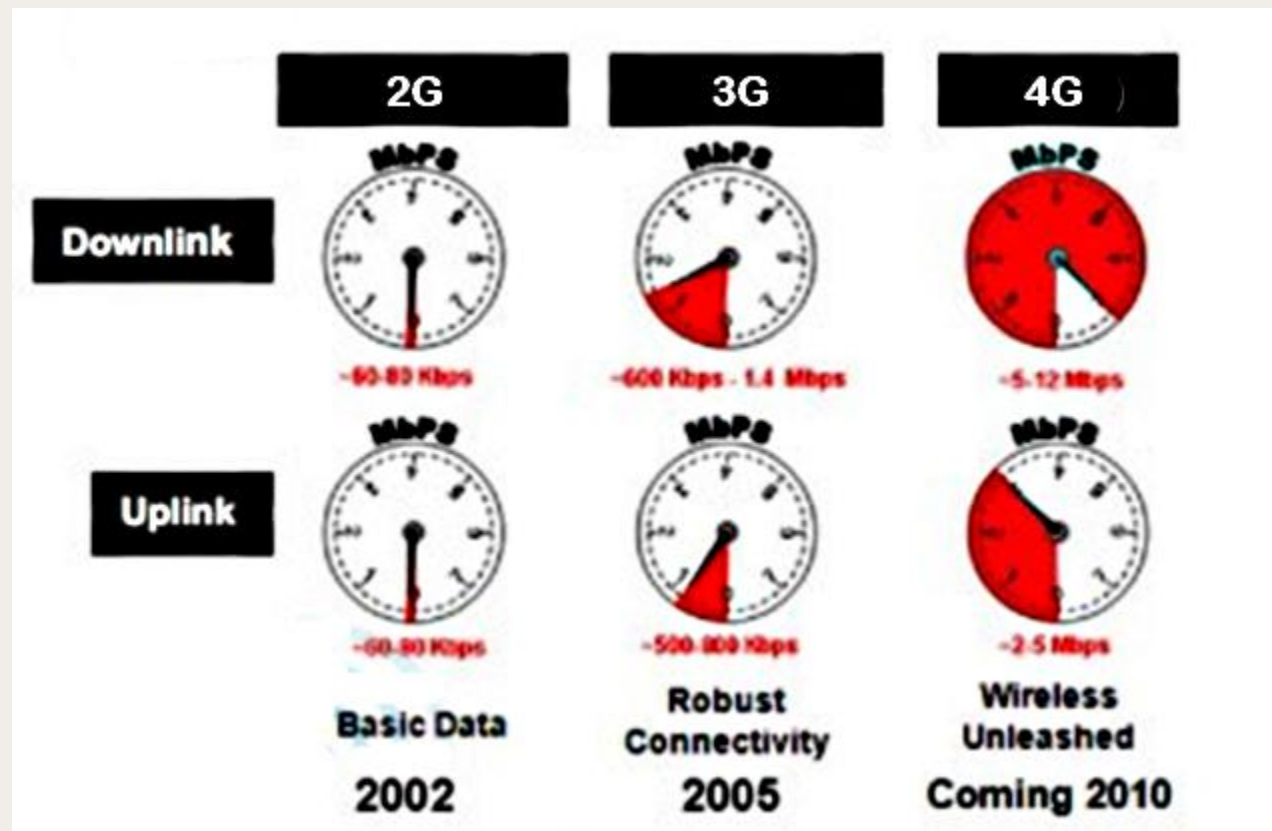
U.S. incumbent telecom companies invest nearly 25% more per line than their European counterparts.



■ Source: Navagant Economies and Crandall (2007); Company Reports



# 4G Competition is Beginning to Emerge



- 4G is Helping Mobile Broadband Reach its Potential



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▪ **Policy Issues**

## ■ Policy Issues: 1

### ■ **Municipal broadband**

- Overbuilding is a waste of societal resources.

### ■ **Transparency and consumer choice**

- Consumers should have basic, comparable information about broadband choices.

### ■ **Ease of deployment**

- Remove barriers to deployment, especially wireless. As the FCC Broadband plan states “*Bringing down the costs of entry and expansion in wireless broadband by facilitating access to spectrum, sites and high-capacity backhaul may spur additional facilities-based competition.*”

## ■ Policy Issues: 2

### ■ USF and rural areas

- We can't afford to subsidize more than one broadband provider in high cost areas.
- Don't need two competitors everywhere as long as differences in pricing plans can't be based on the intensity of competition in an area

# Thank you!

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