

# Let There Be Bandwidth

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Ma Bell's back: Run for your lives! – or at least to the halls of Congress. That, it seems, is the overheated conventional wisdom. But the \$170 billion combination of AT&T and BellSouth into the world's largest telecom company is a perfectly natural progression of business and technology. The merger will rationalize a market beset by decades of political mismanagement.

Some 22 years ago, Judge Harold Greene famously ruled that AT&T violated antitrust law and broke up the company along two axes. First, he divided the telecom market into local and long-distance. But just 15 years later, fiber optics and mobile phones obliterated long-distance as a meaningful market, replacing it with fixed-price, anywhere-in-America bundles, which are now under assault from voice over IP. Judge Greene's other 1984 ruling, which split Ma Bell's local operations into eight regional companies, was even more arbitrary from the outset. Because they were fixed by geography, more local companies did not yield more local competition, only diseconomies of smaller scale. So by the late 1990s, after the 1996 Telecom Act acknowledged some of these problems (but created still others), the regional companies began an inevitable reintegration into Verizon, AT&T (née SBC) and USQwest, which will likely soon be gobbled up as well.

Although this latest reintegration will not reduce the number of competitors in the marketplace, it is sure to supercharge the ever-present denunciations of monopoly that are behind every effort to regulate telecom. This time around, the main agent is the colossus Google. Exactly one decade after the disastrous 1996 act set us on a path for the telecom crash and a plunge to 16th in world broadband rankings, Google is leading an alliance of politicians, lobbyists and interested companies under the aegis of "net neutrality." If enacted, it will repeat the most basic mistakes of earlier legislation.

Net neutrality supposedly seeks the modest goal of stopping the cable TV or telecom companies from "blocking" or "degrading" the content or services of online companies like Google, Vonage or AOL, which are invading traditional voice and video businesses. But the interwoven issues of content and conduit pervade the entire information economy, including the systems of Google itself. Barely recovering from the FCC's "open access" mandates that chopped up and assigned ownership rights and prices to the physical infrastructure – the hardware – of the Net, we now face the prospect of rigid

reassignment of content, applications, services and protocols, too.

Blocking and degrading Internet access would quite simply be business suicide for incumbent service providers. Compared to cable's other content operations like basic and premium TV channels, its broadband cable modem services are more than 50 times as profitable per unit of bandwidth consumed. This means that with just a tiny sliver of the usable bandwidth in its pipes, cable's Internet services supply about 20% of the revenue and the majority of their net income. Does anyone really think the bandwidth providers are going to kill their golden goose?

The continuing advance of semiconductor and fiber-optic technologies will inexorably push cable and telecom operators to dedicate more and more of their networks to open Internet access. In such a highly volatile market, how much of service providers' capacity will be used for Internet access and how much will go for integrated products like high-definition video programming and video conferencing services is a tough business question. With the millions of competing enterprises involved, this is a complex and rapidly evolving system far beyond the capacity of Congress or the courts to micromanage.

A net neutrality regime would invite endless litigation among service providers, hardware and software vendors, and content and applications dot-coms. Who gets access, when, and on what terms, to the other's network, the other's operating system, the other's platform? These questions – the very ones that have stifled innovation in telecom for the last two decades – should be left to business competition and, if all else fails, to common law and antitrust. Congress and the FCC cannot be the arbiters of every connection, interface and transaction. And if such laws somehow only targeted the incumbent bandwidth service providers, then they would turn out to be merely malicious political tools for business rivals, decidedly not "neutral" and unlikely to survive the scrutiny of the courts.

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## *Abundant bandwidth will transcend 'net neutrality'*

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The solution to all this is rather simple – more bandwidth. Abundant bandwidth means the vast majority of online services, such as Web pages, email and voice, won't pose any congestion problems and will thus easily reach end-users. It also means bandwidth cheap enough that content companies won't mind paying for access.

Across the network, different carriers have always charged different prices for varying amounts and qualities. Abundant bandwidth also gives the cable and telecom service providers the flexibility they need to manage this transition from a world of 200 dedicated channels to one with millions of open channels.

Abundant bandwidth will reverse America's communications decline and transcend monopoly worries or any need for complex net-neutrality regulation. But it will take more than \$100 billion of massive and risky new investment, which cannot be made under the current regulatory caprice. Telecom deregulation begun by Michael Powell and continued by current FCC chairman Kevin Martin must be accelerated. Most importantly, we should banish the decades-old local video franchising process.

Since granting monopolies to local cable TV broadcasters some four decades ago, video franchising is obsolete. Yet the prospect of new broadband service providers haggling with some 30,000 mayors and city councils for the privilege of serving new customers is now America's chief obstacle to real broadband. Texas and Indiana have passed statewide franchises, which grant quick, simple and almost automatic licenses for the whole state, and they are already reaping a broadband investment harvest. Around \$1 billion worth of new fiber optic bandwidth has already been announced in Texas. The other 48 states should follow suit, or Congress should adopt a simple national franchise without any "shot-clocks" or "build-out" baggage that invite litigation and discourage investment.

In the metro New York area, one of the few places where Verizon has won a video franchise and built its advanced optical network, competitor Cablevision has increased its *basic* cable modem service to 15 megabits per second and is offering premium services of 30 and 50 megabits. Where it exists, real competition between cable and telecom – not faux competition among distinct telecom brand names – is thus already yielding networks and speeds on par with the most advanced countries in the world.

AT&T's biggest challenge may be branding itself to a new generation of voracious communications consumers who are oblivious to "long-distance" and only know a world of no-distance chats, texts and blogs. It would be far better if Washington listened to these teeny-bopper baby belles instead of basing its merger, net neutrality and franchising policies on a Great Grandma Bell world that no longer exists.

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