ICLE tl;dr

Build Broadband Better:
Focus on Competition, Not Competitors

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tl;dr

Background: Claims that the U.S. broadband market is insufficiently competitive have prompted public policy proposals to stimulate market entry, including through subsidies to government-run broadband service. The White House has incorporated similar proposals into its American Jobs Plan, while Congress also is considering increased subsidies for broadband as part of its infrastructure package.

But... Competition in the broadband market is stronger than critics claim. Economists have long recognized that a market's level of competition is not solely determined by the number of competitors. Seeking to increase the number of firms beyond what that market can profitably bear will lower societal welfare. A better way to encourage broadband buildout would be to remove regulatory barriers to entry.

KEY TAKEAWAYS

COMPETITION IS A PROCESS, NOT A NUMBER

Economists have long recognized that there is an equilibrium number of firms in any given market. At the point of equilibrium, adding another competitor will reduce profits, prompting market exit and the re-emergence of the equilibrium.

Because supply and demand are constantly changing, there is no way to know the optimal number of competitors. Thus, competitiveness can't be defined strictly by the number of firms in a market. The threat of new entry is also always a competitive pressure faced by firms.

Competition is best understood as a dynamic process by which entrepreneurs act under conditions of uncertainty to find the best ways to serve consumers amid changing conditions. The level of competition is defined by the institutional environment in which firms compete. A market with artificial barriers to entry is, in this sense, less competitive than a market with few firms, but no such barriers.

BROADBAND COMPETITION IS STRONG

Ever since the Telecommunications Act of 1996, the U.S. market for Internet service has been characterized by competition among providers of similar services delivered by different kinds of networks. In 2020, the FCC estimated that 64% of Americans have at least two wireline ISPs competing to provide broadband service of at least 25/3 Mbps, while 99% of U.S. Census blocks have three or more wireless 4G LTE options meeting the same benchmarks. Thus, most markets are served by at least five ISPs with what the FCC defines as high-speed broadband Internet. Economic research finds that consumers increasingly enjoy more firms providing service in their local area. And data show that ISPs have invested heavily to build high-speed networks.

In its most recent Broadband Report, the FCC found "impressive gains in bringing high-speed broadband service to all Americans."

FCC data show that average speeds available to consumers, as well as the number of competitors providing higher-speed tiers, have increased each year. Prices for broadband, as measured by price-per-Mbps, also have fallen, dropping 98% over the last 20 years.

SUBSIDIZED ENTRY CAN REDUCE WELFARE

Subsidies can sever the profit-and-loss feedback loop. Subsidized firms that don't effectively serve consumers can nonetheless stay in the market. Using subsidies to add more ISPs to a market, including government-run municipal broadband, can reduce total societal welfare. If the profits of incumbent ISPs are substantially reduced by subsidized entry, there may be exit or consolidation—what economists call "predatory entry." Moreover, unsubsidized ISPs will be less likely to enter when there is a subsidized firm.

Government-run municipal broadband services may provide higher speeds at lower prices than private competitors. But this comes at a cost to society, which must pay for the below-cost service with higher electricity bills, bonds, or regressive taxes.

REFORMS SHOULD FOCUS ON REMOVING BARRIERS TO ENTRY

In many areas of the broadband market, ineffectual regulations needlessly drive up the cost of deployment. For example, current broadband subsidy programs for "high-cost" rural deployment require a recipient to be deemed an Eligible Telecommunications Carrier (ETC) by a relevant state regulator. This imposes unnecessary costs that deter some potential providers. Proposals such as the Expanding Opportunities for Broadband Deployment Act (H.R. 3376) would eliminate this requirement.

Local rules such as pole-attachment requirements also can impede build-out by imposing disproportionate costs on providers. Congress should act to ensure that local jurisdictions do not unduly burden projects designed to promote broadband deployment.

Some consumers live in locations that are simply uneconomical to reach. Direct subsidies to those consumers could make it more profitable to build networks that reach them without the distortions that arise when subsidizing firms. Once these mostly rural areas reach relative parity with comparable profitable networks, the subsidies could be phased out.

For more on these issues, see A Dynamic Analysis of Broadband Competition, ICLE's Principles for the Future of Broadband Infrastructure, and Ben Sperry's post *Islands of Chaos: The Economic Calculation Problem Inherent in Municipal Broadband*.

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