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* KMB, the Stimulus Package, and Broadband. Some recent conference discussions are reviewed.

Special Review Memorandum

Re: KMB, the Stimulus Package, and Broadband.

Foreword

Now, there actually was an interesting mini-conference and television show on the "stimulus package" and broadband this past week, you know. Hosted by the KMB Video Journal in St. Petersburg Beach, Florida.

Important, even knowledgeable people participated. How often do you see that? Sessions also were filmed, and will be posted on the Internet for everyone to see. And, just as Yogi Berra famously said, "You can observe a lot by just watching." So:

Are There "Enough Zeroes"?

KMB participants -- including Dr. Anna-Maria Kovacs, a leading financial markets analyst, and Dr. Robert Crandall of the Brookings Institution -- made the point that the \$7+ billion in broadband investment contemplated by Congress isn't all that big -- relative to what the telecommunications sector nominally is spending already. After all, AT&T and Verizon say they're investing \$15 billion apiece each year, more or less. "Independent" phone companies -- mostly serving rural and small town America -- are also investing perhaps another \$1 billion.

Then, there's the cable business. Cable is the phone company for what? About 20 million Americans? They've invested \$100 billion since whenever, they're always telling us. And, they're investing a lot to speed up existing networks. (Now, if they can just keep regular cable television functioning reliably in North Arlington, Virginia, we'll be happier. Our neighborhood still loses HBO and Comcast OnDemand whenever it rains.)

"Parsing" the Numbers

But how much of that current industry spending is going to maintain existing, "twisted pair" or coaxial cable plant, or No. 5 ESS switches? How much is going to install new cellphone towers, base station equipment, and all the rest? There doesn't seem to be a whole lot of precise information on this score, does there? Important to understand, too, is lots of things get bundled into corporate "capital investment" accounts. Capitalized labor, some long-run research outlays, etc. So reported numbers include lots in addition to physical things.

The day before this 43d KMB "Invitational Conference," the Federal Communications Bar Association (FCBA) held a session at Kingsmill, outside Williamsburg. According to a good summary of remarks which appeared in Telecommunications Reports Daily, many pooh-poohed the stimulus, and said it wouldn't amount to all that much. Heck, there didn't seem to be anyone who thought this was a good deal. (They sounded like the stimulus critics Japan's Finance Minister Yosano had to deal with this weekend -- think they're all choreographing their comments via some multinational web site?)

"Authentic In Every Detail"?

Ourselves, while watching KMB participants speak -- and, reading about the FCBA conference remarks -- we thought of sage guidance from former Federal Communications Commission (FCC) Chairman Al Sikes's own mother. Said Mrs. Sikes, relevantly, "When someone gives you a gift, just say 'thank you.'"

It's strange, isn't it? For the past 10 years, real and self-styled Washington communications policy experts have been bemoaning the supposed lack of sufficient American broadband. Now, Congress ponies up what's a lot of money -- even by Washington standards. It's the equivalent of a new Ford or Duke Foundation, or Carnegie Endowment. And, they're still complaining!

We look at it this way. The National Telecommunications & Information Administration (NTIA) -- the Commerce Department agency administering much of this grant and loan money -- has other capital grant programs. Like the Public Telecommunications Facilities Program (PTFP). It's way smaller (ca. \$25 million a year). But you'd be amazed at how many grants -- and, how much impact -- just this small program can have.

"Everything in the world," former NTIA head Henry Geller famously said, "is compared to what." Compared with "cold turkey," more than \$7 billion in Federal broadband support ought to be noticeable -- especially when other funding "mechanisms" are considered (e.g., the \$4+ billion part of the Universal Service Fund that goes for "high-cost" support).

Broadband as If People Really Mattered

Additionally, there was a discussion of whether broadband -- and, broadband stimulus grants -- would really prove the catalyst for economic progress and jobs creation that many contend. Also discussed was the "marriage" of advanced "info-tech" and communications systems with mostly K-through-12 education.

A consensus seemed to believe that broadband is an important, but not necessarily sufficient economic development tool. Which is not really a surprise, is it? No one really disputes the fact that if South Pomfret, Vermont wants to grow, it's going to have to offer potential employers a sound energy, transportation, and telecommunications infrastructure -- and, offering just one of those isn't necessarily enough. Or, to put it another way, they're not moving jobs to South Pomfret if the phone network is barely able to support a facsimile machine, right?

What the KMB conferees agreed upon is it'd be helpful for NTIA -- and, the RUS -- to search out genuine experts on economic development. Which would include, of course, the Connected Nation affiliates. There also was a discussion of the importance of bringing in respected researchers generally.

Professor Austin Goolsbee, most recently of Harvard and now on the White House staff, wrote extensively on the impact of computers and communications on student achievement, for example. He ought to know at least the right questions to ask applicants, say -- or, the right information one wants eventually reported. Why not ask the fellow to do something useful?

"Network Neutrality" -- The Sleeping Tiger

Third, there was a discussion of what Executive grants-making agencies ought to do about statutory requirements that they ensure "network neutrality" and "open networks." And, as one might expect there was consensus that Congress probably didn't envision a collateral assault on the FCC's "Four Principles" of network neutrality. Or, various "open network" requirements imposed by regulators, too.

But there wasn't agreement on how the grants-making agencies should address these issues as part of the comparative application review. What if a company comes in and says it'd be better to give them money because they'll commit to five, or six, or 11 "network neutrality" principles? Should the agencies then give credit for promising to go beyond where the regulatory agencies would require?

And, what's going to happen if NTIA give an award to a "Five Principles" grant applicant? Aren't all the other ones going to become "Fivers" too? Then where are we? Are the FCC regulations both enabling and limiting, in other words? Well, there's no real consensus on that.

Wireless and "Stranded Plant"

Finally, there was a brief discussion of whether the new wireless broadband systems -- terrestrial and satellite -- will eventually render wireline systems obsolete. So, in theory, the "broadband stimulus" might be like the Federal Government building miles of railroad track -- right as the interstate highway system and modern trucking got underway.

Well, while everyone seemed to like the idea of wireless broadband, about half the KMB participants were skeptical that wireless systems would prove sufficiently reliable and robust. AT&T iPhone subscribers pointed to the notorious problems with that fancy new system. Others noted that very high frequency-based WiMax systems are susceptible to all sorts of interference. The higher in the radio band one goes, after all, the more the signals take on the characteristics -- and, vulnerabilities -- of visible light, right?

The discussion of "stranded plant" linked in with a review of the Universal Service Fund. Rural and small town phone companies have invested billions in conventional plant over decades. Market circumstances and new technologies are now obsoleting that plant, of course. If this were a case where the Government abruptly altered Federal regulatory policies, wouldn't the case for relief to safeguard "transitional equities" be clearer? Sure. But when it is foreseeable competition, technology, and other changes? Remember, assumption of risk is a principal justification for a regime of private profits. If there's no real risk, why are private profits allowed?

Conclusion

Thirty years ago, DEC's CEO Kenneth Olson declared no one would ever want a computer at home and, indeed, you might need no more than a dozen units to run the country. Thirty years ago, Microsoft CEO Bill Gates was explaining that nobody would really need much more than 256 kilobits of computer memory -- and, 5¼-inch "floppies" were ideal. (There's even a book, The Experts Speak, that compiles all these observations and forecasts -- a bunch of editions were published. See Google.)

Ourselves, we just remind people of Jean-François Revel's admonition: "When the choice on the menu is between spaghetti and potatoes, don't ask for caviar." In an ideal world, one might design a stimulus program differently. And, the telecommunications component might be much different, too. But don't waste your time speculating about that.

The law's been passed, the money disbursement process started, and soon those checks will be forthcoming? Will it be as Gladys Knight sang? Will the sun be brighter, the grass greener... ? Well, who knows? Maybe that'll happen. So.