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Press Release

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RURAL CONSUMERS PAY THE PRICE FOR NETWORK MANAGEMENT REGULATION

Smaller Providers Would Suffer Most From Rules that Limit Traffic Management

WASHINGTON, D.C. – Regulations that limit broadband providers from using traffic management techniques to manage bandwidth and congestion are likely to have a disproportionate effect on rural providers and could compromise the broadband goals of this year's economic stimulus package, the Phoenix Center says in a new POLICY BULLETIN released today. The POLICY BULLETIN finds that such regulation would likely mean lower quality service and reduced availability for consumers in rural areas, thereby diminishing the effectiveness of stimulus grants under the American Recovery and Reinvestment Act of 2009 (ARRA). In some instances, the Phoenix Center analysis says that competition might also be reduced in urban areas.

The POLICY BULLETIN, *Expanding the Digital Divide: Network Management Regulations and the Size of Providers*, explains that network management restrictions that effectively force operators to "invest their way out of congestion" are more burdensome to operators facing relatively high capacity costs. "Unsurprisingly, limiting traffic management practices reduces an operator's degrees of freedom in managing congestion, thereby increasing costs and, in turn, consumer prices. More importantly, prescriptive regulation of network management may disproportionately affect networks located in rural areas or smaller networks in urban areas, and wireless networks that face relatively high capacity costs," the Phoenix Center concludes.

The resulting rise in deployment costs from such regulations may significantly increase the public subsidies required to extend broadband to unserved communities. The study presents evidence "… indicating an elastic response of subsidy levels to increases in costs resulting from such regulations; specifically, a 1 percent increase in deployment costs arising from regulation increases the subsidy required for ubiquitous coverage by nearly 2 percent."

"The cracks in the regulatory schemes for the Internet are increasingly apparent," according to study co-author Phoenix Center President Lawrence J. Spiwak. "On the one hand the government is trying to encourage broadband deployment, while on the other hand it is making broadband more expensive to deploy. The inevitable consequences include less broadband, less competition and the need for more subsidies."

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"Policymakers can choose to ignore the economics of this industry when they make rules, but the realities of the marketplace still apply," adds study co-author Dr. George Ford, the Phoenix Center's Chief Economist. "Expanding capacity may be a costly, inefficient, and unnecessary solution for congestion management, particularly for firms facing relatively high capacity costs. Mandating capacity solutions, or even making capacity expansion the favored regulatory solution, increases costs and, necessarily, raises prices and reduces deployment."

"There is much talk about regulators becoming more rigorous and data-centric in their analysis," adds study co-author Dr. Michael Stern, Phoenix Center Senior Fellow and a professor in the Economics Department at Auburn University. "But when we see regulators embracing policies so plainly at cross purposes, we must conclude that it is not more data but better conceptual frameworks that are needed. It is these analytical frameworks that turn data into information."

PHOENIX CENTER POLICY BULLETIN NO. 23: *Expanding the Digital Divide: Network Management Regulations and the Size of Providers*, may be downloaded free from the Phoenix Center's web page at: http://www.phoenix-center.org/PolicyBulletin/PCPB23Final.pdf.

The Phoenix Center is a non-profit 501(c)(3) organization that studies broad public-policy issues related to governance, social and economic conditions, with a particular emphasis on the law and economics of telecommunications and high-tech industries.

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