



Indiana's Connectivity Breakthrough

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Discovery Institute
February 20, 2006

Ten years ago, Washington gave us the Telecommunications Act of 1996. The law's complex and intrusive implementation by the Federal Communications Commission and the 51 state utility commissions resulted in the \$3-trillion technology crash of 2000-02 and has now plunged the U.S. to 16th in the world residential broadband rankings.

Yet for Hoosiers, hope abounds. Indiana is possibly just several weeks or even days away from adopting the nation's most forward looking, pro-broadband communications policy. Heartily endorsed by Governor Mitch Daniels, the telecom reform and statewide video franchising initiatives now in the General Assembly will spur the deployment of some of the world's most advanced fiber-optic networks. Through a combination of direct capital investments and productivity gains, the new broadband policy could boost gross state output between \$7 and \$10 billion over the next five years. That's good for more than half a percentage point per year of extra economic growth.

More importantly, these new broadband networks will prepare Indiana's businesses and young people for the next several decades of global commerce and competition. Today the United States (and Indiana) has virtually no real residential broadband at all. A single high-definition video stream requires more than 10 times the bandwidth of the average American "broadband" link. Our regulatory mistakes helped Asia take the Internet lead, with connection speeds up to 50 times faster than our "broadband." South Korea today has 40 times the per capita bandwidth of the U.S.

The exciting prospect today is for Indiana to become a Korea of the West. There is only one significant obstacle standing in our path.

The centerpiece of these telecom reforms is a common-sense measure known as "statewide video franchising." This streamlined process of licensing new video and broadband providers passed the Indiana Senate 40-6. But statewide franchising was stripped from the House bill. It is crucial this provision makes it to the Governor's desk.

Statewide franchising bypasses the cumbersome, fragmented, and wasteful process that originated some four decades ago to grant cable TV monopolies. Instead of haggling with several hundred franchising authorities throughout the state, a statewide franchise would allow new broadband providers to get simple, quick approval from the state so they can build new networks across the state today, not several years from now.

I have seen the comedy and tragedy of the franchising process up close. In the early 1980s, my grandfather built the cable TV network in my hometown of La Porte. For two years, it seemed most dinner conversations recounted the day's twists and turns and drama of the city council franchising

process. Similarly fierce and ridiculous “cable wars” were fought in thousands of towns across the country. “No one should ever have to go through that again,” my father insisted to me the other day. “The process was 90 percent politics and 10 percent substance.”

Although the local franchising process for large companies like Verizon and AT&T might not be as ugly as it was for small competing investor groups 25 years ago, it will impose debilitating delays. Verizon for the last few years has employed a team of 100 lawyers seeking local franchises across the nation. But by the end of 2005, Verizon had won the right to serve only 40 towns among its 10,000 service areas. The existing franchise process is thus one of America’s biggest obstacles to real broadband.

The only purpose of video franchising is to award a monopoly. But in an era of global companies and competitive and dynamic technology -- from fiber-optics to satellites -- franchises are obsolete and should probably be banished altogether. (What other business must grovel and cajole for permission to serve customers and then pay the local mayor 5 percent of gross sales?) A statewide franchise is a political compromise that removes most of the barriers to investment while ensuring localities don’t lose any revenue.

In Texas, where this reform was enacted last year, AT&T announced \$800 million worth of new broadband networks covering every town in its service area. In the New York metro area, one of the few spots where Verizon earned a video franchise and built its new optical network, its chief competitor, Cablevision, has already upgraded its basic broadband cable modem service to 15 megabits-per-second and is offering new premium services of 30 and 50 megabits. Real competition is thus producing Korea-like networks and speeds.

Fort Wayne mayor Graham Richard rolled out the red carpet for Verizon and ended up with 7 million feet of optical fiber circling his city’s 110,000 homes. Is there any reason the whole state should not roll out a similar pro-investment red carpet for all telecom investors, large and small?

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