

Crossing Ford - A reply by John de Ridder

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The Berkman report to the FCC questions the basis for current broadband policy in the USAⁱ. I am as surprised as anyone that this report relies heavily on my analysis for the OECD to support open access policies. It is no surprise, of course, that my analysis should then be subject to critical analysis but I think the George Ford critiqueⁱⁱ reported in Communications Day (16 November) is wrong.

This is an argument about econometrics, but the issues can be explained easily.

Ford's main criticism is the choice of estimation technique. My paper said that in exploring what drives broadband penetration "it is not clear that either the demand or supply equation or both can be estimated".

It was recognised a long time ago that if the supply curve shifts more than the demand curve (as with agricultural products), the demand curve can be identified. My paper claimed that in broadband, as with agriculture, the supply curve is shifting so much that the demand curve can be identified. The non-linear demand curve was depicted in my Figure 1 (and then a linear demand curve was estimated by taking logs of the price variables). Looking at the explanatory variables in my paper, those for supply seem very likely to cause shifts in the curve while those for demand (apart from price and income) are not likely to shift much.

Ford's paper notes that all my reported supply equations show a negative slope for the supply curve. This is not surprising if the supply curve is shifting (is not defined) as argued above. Prices are falling while supply is growing, so there is a negative relationship. Ford actually agrees; "If a skilled economist or econometrician observed these results, he or she would conclude that the supply curve was not identified by the model" (p4. Exactly. In these circumstances, Ford's Figure 2 is incorrect if the supply curve is upward sloping and shifting. If shifts in the upward sloping supply curve are greater than shifts in the demand curve, as both I and Ford say, then the observed data points will describe something close to a demand curve (ie my Figure 1).

The main focus of my paper for the OECD was on what drives broadband penetration rather than the policy of unbundling. The paper made clear that my unbundling policy variable is a "rather simplistic measure of government policy" and that I would have liked a richer data set such as that provided in Europe by ECTA. I don't think I over-stated the results in relation to unbundling; suggesting only that "if inter-platform competition does not materialise" government should look to unbundled local loop pricing and the use of subsidies to increase broadband penetration.

ⁱ See http://cyber.law.harvard.edu/newsroom/broadband_review_draft

ⁱⁱ George Ford, *Whoops! Berkman Study Shows "Open Access" Reduces Broadband Consumption*, Phoenix Centre, November 2009, available at <http://www.phoenix-center.org/>