

December 8, 2015

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In response to questions submitted for the record by the Honorable Gus Bilirakis:

1) *“You indicate that “[i]n the absence of market failures, economic analysis has generally found that regulation reduces investment.” Has the broadband industry experienced a market failure?”*

Response: There is no apparent market failure in the broadband industry, with regard to the Internet Service Providers (ISPs) who build and sell access to broadband service or providers of broadband content. By contrast, for example, market failures can encourage producers to pollute, based on their ability to pass along the costs of polluting to those other than themselves or their customers. Regulations to reduce pollution, therefore, can raise investment by those producers and by others, since capturing the costs of pollution in the prices of those polluting makes the economy more efficient. There is no correlative to this dynamic in broadband.

2) *“You estimate a range of 5.5% to 20.8% a year in a reduction of investment, as well as a reduction of investment to capital stock on a similar negative trend. How many years will this take to irreversibly cripple the industry as a whole if factors remain the same?”*

Response: If Title II regulation of ISPs has the impact I expect it to have on ISP capital investment, declining quality in broadband service and rising prices for broadband access should be apparent within three to five years.

3) *“I appreciate your use of direct, analogous scenarios to paint a clear picture of the challenges that lie ahead. You indicate that consumer costs and fees are likely to increase as well. Are the end consumers, my constituents, likely to bear the initial brunt of this regulation in the form of increased cost and fees?”*

Response: The initial brunt of Title II regulation of ISPs will likely be borne by consumers in the form of degraded broadband service, which in turn would likely dampen the scope and pace of broadband innovation and so ultimately reduce consumer choices in broadband content. Higher fees would follow if, as expected, Title II regulation of ISPs includes a universal service requirement on the model of Title II regulation of telephony. Such a requirement would be funded by a substantial fee on consumers, which ultimately would also reduce broadband uptake.

Sincerely,

/ signed /

Robert J. Shapiro