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The local broadband imperative

Australia's governments should ensure that many different broadband systems can be brought to different parts of the country, says leading economist Joshua Gans.

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There is a problem with the national broadband debate in Australia, and the problem is national. I do not mean by this that as a nation we face a problem. I mean that the solution to our current broadband quagmire is being hampered by a continual focus on national alternatives. Instead, there is every reason to believe that the solutions to broadband and, in particular, the next generation, require a series of individual local solutions.

To begin, consider why we have a search for a national solution. First, we are told that there are few companies that can amass the capital and the expertise to invest in broadband. Then it is noted that those companies are national. Hence, it is argued that unless they consider investing on a national scale – and get protection from competition and regulation to do so – nothing will happen. However, this is an extremely high hurdle. So it should not surprise us that the going is slow.

Second, we are told that the reason for broadband investment is to encourage local content. To have local programs streamed over the Internet requires content developed for Australian tastes. Unless there is ubiquitous national coverage, then no such development will occur.

The combination of the supposed need for national-scale investment and the national scope of content leads naturally to a conclusion that broadband needs a national provider. However, the premises underlying this conclusion are demonstrably false.

First, on the supply side, the main bottlenecks for faster Internet access are all in the "last mile" or the last few miles from the relevant Telstra exchange. This is what is driving the fibre-to-the-node (FTTN) debate. However, you need only look at your own locality to realise that the "last mile" to your home can be covered in a myriad of different ways. Only one of these ways is to rely on the decades-old traditional phone lines – the "copper pair". Wireless solutions abound, and those with wireless networks routinely note that their neighbours have the same thing. Economist Nicholas Gruen sees this as an obvious opportunity for neighbourhood sharing.

But it is also possible for smaller firms to connect fibre from nodes or exchanges to households. This does not require Telstra. Instead, it requires access to things Telstra controls. These include interconnection at the exchange, as well as use of the conduits that run down streets. Open these up, and with it you open up the possibilities for local entrepreneurs to find local solutions.

From a supply perspective, the solutions can respond both to geography as well as to demography. The need for investment varies from area to area. Population density, age distribution and obviously wealth distribution all matter. Local areas where these all fall into place will see lots of options. Those that don't, will not. But this is not unusual. We see this pattern all the time with local services. We then make governmental judgements as to whether those areas need a helping hand.

An example of this is the federal government's Broadband Connect, which subsidises providers who connect outlying homes. Another example comes from state and local government working with developers to build fibre into new housing allotments. As they do so, land values and rates rise. So having decent broadband infrastructure provision becomes something akin to having good garbage collection. It is fundamentally a local issue.

But what of the content? It's nice to talk of the Internet's use as involving a one-way flow of information from providers to consumers. But these days it is clear that the flow is driven by exchange and collaboration – that is, the flow of information is two-way. Examples such as YouTube and blogging are easy to point to. However, even in the past, email was the killer application of the Internet. The predominant means of two-way interaction is among people you know. And the people you know are mostly local.

So there is no compelling rationale for investing in broadband to encourage national content provision. There are already dozens of tried and true means of getting content to users in Australia. We do not need to spend billions on another. Instead, local money needs to be spent to generate local services. That is where the greatest value lies.

The broadband debate needs to shift its focus off national provision and onto local provision. And the good news is that if we get the regulatory settings right (in terms of access) we will get the local market solutions right in terms of local provision, competition and procurement. It won't happen in one big bang. But by focusing on appropriate, locally targeted solutions rather than a pie in the sky, there is at least hope.

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