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Press Release

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FOR IMMEDIATE RELEASE
Thursday, October 29, 2009

PHOENIX CENTER CHIEF ECONOMIST CHIDES FREE PRESS FOR FLIMSY ANALYSIS

Says Advocacy Group's Findings on Investment Ignore Key Inputs

WASHINGTON, D.C. – Phoenix Center Chief Economist Dr. George S. Ford said today in a new PHOENIX CENTER PERSPECTIVE that a recent Free Press report on telecom investment and net neutrality is “flimsy and self-serving,” ignoring important considerations that affect investment decisions and demonstrating a lack of competence in empirical analysis. Dr. Ford notes that Free Press rebuts its own studies by observing that investment decisions are driven by many factors, but then didn’t take any of them into account in the course of its analysis, instead attributing all investment changes to net neutrality.

“Free Press exploring an important issue, but they went about it all wrong,” says Dr. Ford. “I find it interesting that an organization actively encouraging the FCC to adopt a more data-intensive approach to regulation appears to know so little about data analysis. There is not a single statistical test in the entire Free Press report. It’s not a study; it’s a rant.”

The Free Press paper, released on October 21, pointed to rising capital investment by AT&T following its 2006 acquisition of BellSouth as evidence that net neutrality does not deter investment. Free Press, which is a strong advocate for net neutrality regulation, noted that investment by AT&T rose even though the company accepted net neutrality restrictions as part of the merger agreement. But Dr. Ford’s new PHOENIX CENTER PERSPECTIVE demonstrates that “Free Press is merely exploiting a temporal correlation and calling it causation to support a particular policy preference. As Dr. Ford points out, “an equally legitimate interpretation ... is that the FCC should promote more mergers if they want more investment.”

Using standard econometric techniques, Dr. Ford goes on to explain that the “most severe defect with the study is the attribution of all change in investment to the single voluntary merger commitment on network neutrality. Particularly since the report claims that there are seven factors (including regulation) that determine a firm’s choice of capital expenditures.” “In that respect,” says Dr. Ford, “Free Press effectively rebuts its own analysis.” Dr. Ford also chides Free Press for selecting a single merger condition to explain AT&T’s investment decisions when the company faced many merger conditions that could influence investment levels, not to mention the effects of the merger itself.

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Finally, Dr. Ford notes that the net neutrality conditions that applied to the AT&T-BellSouth merger were much milder than proposals now under consideration and, therefore, do not provide a solid basis for conclusions about future regulations that might be adopted.

According to Dr. Ford, "While the conclusions of the Free Press study should largely be ignored by the more serious and open-minded policy makers, there is one conclusion of merit. The Free Press report recommends that '[p]olicymakers need to look at the data and judge the facts for themselves.' In light of the quality of the Free Press's analysis, this is exceptionally good advice."

PHOENIX CENTER PERSPECTIVE NO. 09-04: *Finding the Bottom: A Review of Free Press's Analysis of Network Neutrality and Investment*, may be downloaded free from the Phoenix Center's web page at: <http://www.phoenix-center.org/perspectives/Perspective09-04Final.pdf>.

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