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Just Say "No" to Municipal Broadband Networks

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Municipal broadband networks have proliferated recently and their increased exposure demands that the many concerns with these networks be addressed. Some are indeed very basic. Concerns with regard to the role of government in providing consumer products and services that are in direct conflict with the private sector; concerns with regard to the competitive advantages that governments have over their private sector competitors; concerns with regard to government control of content; and, concerns with regard to the taxpayer obligations to subsidize network operation.

When government owns and operates a product or service, incentive for investment by the private sector in the development of that product or service, is inhibited. Further, when government owns and operates a product or service there is no return on investment and hence little or no capital formation as a result of the production. Capital contracts on the private sector side and jobs are lost. Just take a look at the effectiveness of socialist economies in the development of capital and the establishment of jobs during the cold war. In country after country the ultimate decision was to reverse the trend, back out of government operated facilities and spin offs to private sector style operations. And more so, government has the full faith and credit of the taxpayer in underwriting the cost of infrastructure.

Experience shows that government has a virtually bottomless source of capital in a captive taxpayer base. They do not compete with the private sector for capital. They compete with other governments for capital. They issue bonds with preferential cost of money rates and the ability to tax to pay for the bonds. They do not use the revenues from the facilities for repayment and that is because they have the full faith and credit of a governmental entity backing them up. That is clearly not something that the private sector providers have.

The construction of the infrastructure to provide the service also is advantaged by the political subdivision. Government merely cedes itself access to the municipal rights of way and constructs its lines. Don't you think that cable providers, incumbent local exchange carriers (ILEC's) like SBC, Qwest, Bell South and Verizon and competitive local exchange carriers (CLEc'S) wouldn't like that opportunity? But the fact is that they do not have that and having to compete against an entity that does have that is unfair and inappropriate.

In the provision of the service there is the cost to the ultimate consumer other than in their generic governmental tax structure. Will these municipal networks charge for the provision of this service? Some governmental leaders boldly suggest that every citizen should have free broadband WiFi service. Well we know it isn't free – they'll obviously pay for it in taxes. But let's presume that the governments will charge for their municipal networks the same way that they charge for water or garbage collection. Because of the ability and propensity of governments to subsidize for the services that they provide, predatory pricing would ultimately drive any private sector competition out of the market.

This isn't a new concern. A decade ago concerns developed over other products and services that governments were entering and their impact on the private sector. Many had been in specific response to state run higher education competing with business for contracts in the public sector. The response in several states was the creation of private enterprise review boards or competitive councils. The purpose of these was to evaluate when taxpayer funded tax exempt organizations such as employees of state universities had a competitive advantage over their counter parts in the private sector in competing for government contracts.

And higher education moaned loudly about these boards and councils. But the purpose was to prevent subsidized members of academy from getting preferential treatment in contract bids because their services were subsidized by the public sector and the taxpayers.

Before anyone counters by reciting all of the basic services provided by government more effectively, efficiently and cheaply like roads, let's remember all the taxpayer subsidies of those items like mass transit. There is an inherit limit to just how much the public should be required to subsidize. Further let's remember that changes in technology make existing systems obsolete almost at their point of introduction.

And then, of course, there is the issue of government control of content. We're not talking about freedom of speech. We are talking about something far more sinister and potentially damaging to a free society. How many newspapers of general circulation in the United States are owned and operated by the federal government, a state government or the government of any political subdivision? The answer is zero. Likewise how may radio or television stations in the United States are owned and operated by the federal government, a state government or the government of any political subdivision? Again the answer is zero. Yes, the bandwidth is auctioned off to the provider by the government but that is a far cry from the actual ownership of the provision of broadcast services. The same thing applies to cable television and satellite services. Once government controls the distribution of broadband services, control of content is a potential likely successor.

Some states have already recognized both the dangerous economic ramifications of municipal networks as well as the free speech aspects of this concept. When the Supreme Court enunciated that states have the right to prohibit government ownership and operation of municipal networks they were essentially agreeing with both the free market and free speech obligations that the states have to protect their citizens. Missouri's law sparked the court test. Nine states including Missouri have laws on the books that prohibit or limit municipalities from getting into the telecommunications business. Others are likely to follow suit in the coming 2005 regular legislative sessions.

But of more significance are the examples of municipalities that have gotten into the telecommunications business only to see their efforts fall apart. According to Broadband Reports cities in Georgia and Washington, just to cite a few, have lost millions of taxpayer dollars and ultimately been forced to sell off whatever infrastructure that remained. Marietta, Georgia suffered a $24 million loss, a Washington PUD has been absorbing loses of $15,000 to $17,000 per year and Trion, Georgia spent $1,800 per resident reducing a surplus to 10 cents on the dollar. More so the so-called Utopia Project in Utah took a tremendous hit when Salt Lake City officials last spring announced that they would not back that program financially.

Justifications for municipal networks have come from rural venues where complaints of lack of telecommunications infrastructure investment are articulated. Those proponents suggest that if the government didn't provide the services then rural citizens would be denied the benefits of broadband internet. Let's for a moment suggest that there are rural areas where the level of service is below some determined acceptable levels. Other methodologies are available by the state or its political subdivisions to create incentives for private sector investment in the development and deployment of telecommunications services short of government ownership.

States have frequently used tax abatement and other deductions, exemptions and credits as incentives to lure private sector investment especially in rural areas. States create special property tax rates or assessment ratios. States establish special districts for the provision of a variety of basic needs. The list is almost endless. But the goal is the same. They use the existing opportunities within state law to provide private sector initiatives rather than engage the force of government to compete with the private sector. The result is more effective, longer lasting and creates more investment capital and jobs in the process.

We suggest that municipal networks are a bad idea that will have a negative impact on the continued development of private sector investment in, development for and deployment of telecommunications services and the resulting economic benefits they provide to the US economy.

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