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**Maryland Must Improve Its Economic Climate
to Realize Broadband Benefits**

by

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During the Maryland Assembly's 2013 legislative session, the future-minded state policymakers would do well to consider TechNet's new state broadband climate rankings. TechNet ranked Maryland number four among all states. Surely, this is welcome news for Maryland. But even thriving broadband technologies and services have difficulty overcoming state tax and regulatory policies that thwart new economic opportunities. Maryland policymakers should build on the state's broadband successes. This includes pursuing policy reforms to make Maryland's overall economic climate as favorable as its broadband climate.

[TechNet's State Broadband Index](#) rates the states based on indicators such as broadband adoption, network quality, and economic structure. In terms of network quality, the *Index* considered such factors as peak and average network speeds and the number of households passed by fiber optic broadband infrastructure. And in terms of economic structure, the *Index* considered the percentage of information and communications technology-related jobs in the state as well as numbers of jobs involving applications development – or the state's mobile "apps intensity."

There's plenty of room for questioning the criteria used by the *State Broadband Index*. But hardly questionable is the *Index's* conclusion that "States that rank highly on the

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broadband index stand better chances of reaping the benefits associated with high quality networks and robust adoption rates." The *Index* is therefore useful for its emphasis on broadband as an economic catalyst and a source of interstate competition for new business and jobs. In other words: "By comparing where states stand, the *State Broadband Index* offers stakeholders a roadmap for accelerating progress—and laying the foundation for stronger communities and a more innovative economy."

Maryland's 4th-place finish in the *State Broadband Index* is partly attributable to "apps intensity." Here, "apps intensity" means "the percentage of App Economy jobs in a state as a percentage of total jobs, indexed to the national average." States having high "apps intensity" experience significant economic impact from wages provided by those "App Economy" jobs.

The *State Broadband Index* incorporated findings from an economic study published in September 2012 titled "[The Geography of the App Economy](#)." That study ranked Maryland 15th overall. For Maryland, annual App-related job wages totaled some \$436 million. (However, the economic impact experienced in top "apps intensity" states like Washington and California were still several orders of magnitude larger than Maryland.)

The *State Broadband Index* also offered a specific explanation for Maryland's top-tier broadband climate ranking:

Maryland, like Delaware, is a small state geographically with dense urban clusters; this undoubtedly helps it have high measures of average and peak network speeds. Maryland is also part of the DC-area tech cluster, and its tech-oriented economic sector is enhanced by the health care and hospital industries in the Baltimore area. One commonality among Massachusetts, Delaware, and Maryland is a high rate of homes passed by fiber.

Through use of a regression analysis that included geographical factors, the *State Broadband Index* concluded that Maryland "performed at about expectations in this analysis." That is, Maryland wasn't considered a broadband climate "overachiever" like some other states. To the extent that Maryland's successes in broadband are attributable to geographical considerations, therefore, complacency is even less called for. Rather, Maryland policymakers should adopt certain policy changes with a goal of ensuring that its overall economic climate becomes as competitive as the state's broadband climate.

Maryland's heavy and disproportionate taxes on businesses and wireless services risk offsetting the economic opportunities and benefits offered by the state's broadband climate.

Much attention has been called to Maryland's lack of economic competitiveness when compared to other states. For instance, as I pointed out in an October 2012 blog post, "[Maryland's Heavy Business Tax Burden Keeps Investment and Jobs Down](#)." From a

tax policy standpoint, Maryland is one of the nation's least business-friendly states. The [Tax Foundation's 2012 Business Tax Climate Index](#), designated Maryland's business tax system as the 8th worst state in terms of its fostering a favorable business and jobs climate. Regarding state individual income taxes, Maryland was in 46th place. State individual income taxes have a critically important impact on small business start-ups and growth.

Also, in a November 2012 blog post, "[Growing Tax Bills Burdening Wireless Subscribers](#)," I cited one [study](#)'s findings that Maryland consumers bear the 11th highest wireless tax burden in the nation. The state applies a regular 6 percent sales tax to most services, including wireless services. But thanks to the additional taxes, fees, and surcharges, Maryland's wireless consumers face an average state and local tax rate of 12.77 percent.

Maryland also faces stiff competition from neighboring states with broadband-friendly and business-friendly environments. While Maryland places near the top in the *State Broadband Index*, it borders states that are essentially an equal match. Delaware ranks 3rd and Virginia ranks 8th in the Index. Meanwhile, the business tax climates of those respective states are more favorable than Maryland's. (The Tax Foundation ranks Delaware 12th and Virginia 26th when it comes to business taxes, compared to 42nd place Maryland.) The overall economic outlook for Maryland's neighbors could easily tip the scales in their favor when it comes to attracting start-ups and inducing expanded operations in the information and high-technology sectors.

For that matter, complacency means overlooking the likelihood that any performance gap between state leaders in broadband and the remaining states will close in the years ahead. According to the FCC's own estimates in its [Section 706 Report](#), approximately 95% of all Americans already have access to broadband services. And private investment in upgraded, next-generation broadband networks – including 4G LTE wireless networks – continues. AT&T, for instance, [announced in November](#) its plans to "invest \$14 billion over the next three years to significantly expand and enhance its wireless and wireline IP broadband networks." Also, the FCC is also transitioning universal service from voice telephony to broadband services, with the goal of extending and sustaining broadband operations nationwide, including high-cost areas. Thus, any economic advantages Maryland might now enjoy in terms of broadband deployment and adoption cannot be taken for granted or considered in isolation from the state's long-term overall economic environment.

No doubt other states will seek to improve their competitive standing through pro-investment and pro-job growth tax and regulatory reforms. Maryland can't afford to assume its neighboring states would do otherwise. So for Maryland to keep pace in broadband and to improve its overall economic competitiveness, important public policy reforms should be pursued.

A few of those necessary reforms include:

- Reducing business tax burdens – including individual income tax rates and the unemployment insurance contribution requirements, where Maryland ranks near the bottom among all states – to make Maryland more attractive to new ventures and more competitive with other states.
- Reforming state and local taxation of advanced communications services upon which entrepreneurial activities thrive. Heavy and disproportionate taxation of services like wireless deters adoption by price-sensitive consumers, diverting revenue from providers and thereby reducing infrastructure investment. Policymakers should monitor closely the work of the Maryland Communications Tax Reform Commission, which is tasked with making recommendations to the Maryland Assembly.
- Look for ways to reduce local government roadblocks to construction of new towers and other infrastructure needed to support next-generation broadband services. As the State Broadband Index report stated: "Legislative leadership is...critical to ensuring that regulatory barriers are minimized, that rights of way access is expanded and that other policies needed to promote deployment and adoption are developed."

Maryland boasts some positive indicators when it comes to broadband deployment and adoption, as well as a growing App Economy. But the state still has its work cut out for it. Even with those positive indicators, Maryland's economic vitality and future depends on overhauling state tax and regulatory policies that stand in the way of new business start-ups and new jobs.

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