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## **Overbuilding Broadband Networks With Public Funds Harms Consumers**

by

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Jonathan Sallet, now a Senior Fellow of the Benton Institute for Broadband and Society and FCC General Counsel during Tom Wheeler's chairmanship of the Obama-era Federal Communications Commission, has published a new paper titled, "[Broadband for America's Future: A Vision for the 2020s.](#)" Because I disagreed with much (but not all) of the Obama FCC's broadband policy – especially including its imposition of public utility-like regulation on Internet service providers – I am not surprised that I disagree with much (but not all) in Mr. Sallet's new Benton paper.

Without relinquishing the right to return to other points in the paper in the future, here I want to focus on one particular aspect that Mr. Sallet places up front under "Advancing Broadband Deployment." Mr. Sallet advocates that government funding for broadband networks should be directed not only to areas that lack broadband, but also to areas where Internet access is "inadequate." By inadequate, Mr. Sallet means either (or both) that broadband already is available, but not at speeds that he considers adequate, or that there are not enough providers to satisfy him.

There are serious problems with Mr. Sallet's position. First, he doesn't say how much government funding should be made available, or how it should be paid for. (In other words, in federal budgeting parlance, there are not "pay fors." I suppose Mr. Sallet would say that is someone else's concern, not his.)

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Second, Mr. Sallet advocates that the definition of what constitutes "broadband" for purposes of receipt of government funding be increased substantially. For example, he points out that Minnesota defines "underserved" as any place where "households or businesses lack access to wireline broadband service at speeds of at least 100 megabits per second download and at least 20 megabits per second upload." And, in another example, he says New York devoted 10 percent of its available funds to improving connectivity in "underserved" areas, defined as places where broadband service is available from a wireline provider at download speeds between 25 Mbps and 99 Mbps.

While there is nothing *per se* untoward with high aspirations, it is not helpful when the boundaries of such aspirations are left vague or set unrealistically high, and when the means for the government funding such aspirations are not specified. Indeed, especially when public funding is involved, it's worth recalling these findings from a study (admittedly unscientific) conducted by the *Wall Street Journal* and reported in an August 20, 2019, [WSJ article](#):

*"Our panelists used only a fraction of their available bandwidth to watch streaming services including Netflix, Amazon Prime Video and YouTube, even simultaneously. Quality didn't improve with much higher speeds. Picture clarity was about the same. Videos didn't launch quicker."*

And this: *"We found similar results across our 34 testers who ran five, six or seven streams at once. The eight users with speeds 100 Mbps or higher who had seven streams going used only about 7.1 Mbps of capacity, on average."*

This is not to say that, over time, consumers may not demand considerably higher broadband speeds than those generally available today. I suspect they will. But when advocating for the expenditure of large sums of public money to overbuild areas in which broadband already is available, aspirational over-exuberance is not necessarily a virtue.

And this leads to the third – and most fundamental – problem with Mr. Sallet's advocacy regarding the use of public funding to advance broadband deployment. He wants the government to subsidize "competition" in areas in which service is already available, without any regard for the adverse impact such subsidization is likely to have on suppressing private sector investment and innovation.

Here, in Mr. Sallet's own words in the [Executive Summary](#), is the way he justifies such government-subsidized overbuilding:

*"[W]hat some call 'overbuilding' should be called by a more familiar term: 'Competition.' 'Overbuilding' is an engineering concept. 'Competition' is an economic concept that helps consumers because it shifts the focus from counting broadband networks to counting the dollars that consumers save when they have competitive choices."*

Playing with labels won't resolve the fundamental problem with Mr. Sallet's approach to deployment. It is one thing to use carefully-targeted government subsidies to help deploy broadband

in unserved areas as long as such subsidies are distributed in a way that is as efficient as possible. (Here I'm happy to see Mr. Sallet endorse reverse auctions as a means to help ensure the most efficient distribution of funds.)

But it is quite another thing to advocate the use of government money to increase "competition" in so-called underserved areas because government officials decide that, in their view, existing competition is, for one reason or another, "inadequate." This managed-competition approach, which characterized the *modus operandi* of so many of the Obama-era FCC's policy proposals, is wrong-headed because, ultimately, it is harmful to consumers. There is widespread agreement among economists that government subsidies tilt the playing field in a way that discourages facilities investment by existing private sector providers who otherwise might expand and upgrade their networks, and even by private sector providers on the sidelines contemplating new entry.

Adopting programs that disincentivizes private sector investment in new broadband facilities in the face of government-subsidized new entry almost certainly will reduce overall consumer welfare in the long-run and possibly even the short-term too. And it is an unwise use of scarce public funds to establish managed-competition programs in areas in which service already exist.

I do not doubt the good-faith of Mr. Sallet in offering his ideas for achieving more ubiquitous, faster broadband. I'm happy to share many of his aspirations. But I do wish he would go back to the drawing board with respect to his proposals regarding government-funded overbuilding in areas in which broadband service already is available.

To be sure, suggesting that substituting the word "competition" for "overbuilding" is not sufficient to make the case.

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