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**Biden Broadband Plan:
Misdirected Broadband Subsidies Hurt Competition and Consumers**

by

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President Joe Biden has announced that he wants to "bring affordable, reliable, high-speed broadband to every American." It's likely that he will be touting his broadband plan in tonight's State of the Union speech. The goal is a worthy one brought to the fore by our collective experience during 2020, the year of the COVID-19 pandemic.

But it also is a goal that requires a disciplined focus on those areas that currently are – and, due to unfavorable economics, likely to remain – truly unserved. His "American Jobs Plan" (the Biden Plan), however, embraces an expansive wish list of broadband-related priorities that conflict with one another in fundamental ways. As a consequence, they would undermine, rather than promote, its core objectives. Indeed, they would have the effect of hurting competition and consumers.

A recent [FSF Blog post](#) discussed how the Biden Plan's requirement to build "gold-plated" networks would lead to higher consumer prices. In this *Perspectives from FSF Scholars*, we describe how the use of taxpayer-funded subsidies to enable new entrants to provide broadband service where privately funded networks already exist will disincentivize deployment in high-

cost unserved areas and erode the downward pressure on prices that the competitive marketplace currently exerts.

The [Fact Sheet](#) released by the White House is short on details, but when it is considered in connection with related federal legislative proposals, a clearer picture emerges. The Biden Plan doesn't simply aspire to "connect," in the traditional sense, every unserved American. [It also would redefine the notion of "served" to heavily prioritize fiber to the home \(FTTH\) over other transport media.](#) Consumers today obtain service from a wide range of providers employing a number of delivery technologies in addition to FTTH: DOCSIS® cable modem service, Digital Subscriber Line technology, fixed wireless, satellite, and, increasingly, [5G wireless networks](#). But with the exception of FTTH, the majority of these services are engineered in a manner consistent with how consumers use the Internet: that is, with a greater amount of bandwidth dedicated to downstream traffic than to upstream traffic.

The fact is, downstream traffic demand exceeds that of upstream traffic by a substantial margin: 16:1 at the end of last year, [according to NCTA – The Internet & Television Association](#), a ratio that increased even during our Zoom-enabled pandemic virtual reality.

The expert agency on this topic long has recognized the asymmetrical nature of Internet traffic. According to Federal Communications Commission (FCC or Commission), "unserved" currently means lacking the ability to subscribe to high-speed Internet access service, no matter how it is provided, at speeds of at least [25 megabits per second \(Mbps\) downstream and 3 Mbps upstream](#).

The "['Future Proofing' Subsidized Broadband Would Inflate Consumer Prices](#)" blog highlighted the intrinsic link between the Biden Plan's apparent preference for "gold-plated" networks – specifically, those that deliver symmetric 100 Mbps, or even gigabit, speeds – and higher consumer prices. In brief, infrastructure that provides more than what people demand costs more than they want to pay.

The Biden Plan's obsession with networks that deliver far more bandwidth than warranted, particularly upstream, would have other ramifications, as well. That is because it would allocate the bulk of its \$100 billion to subsidize broadband infrastructure construction not just where the economics – specifically, the potential rate of return over time as compared to the substantial upfront investment required – are insufficient to beckon private capital, but also areas arbitrarily and inappropriately labeled as "underserved" when, in fact, service *is* available.

Both the [Leading Infrastructure for Tomorrow's America \(LIFT America\) Act](#) and the [Accessible, Affordable Internet for All Act](#) define an "area with low-tier service" eligible for subsidized deployment as one where existing service currently provides speeds of 25 Mbps or more in both the upstream and downstream directions – but certainly not 100 Mbps or more.

As USTelecom | The Broadband Association President and CEO Jonathan Spalter recently noted, however, broadband is "[ultra-competitive](#)." In December 2020, the FCC released the [2020 Communications Marketplace Report](#), which revealed that, at the end of the previous year:

- 74 percent of Americans had a choice between at least two 25/3 Mbps services;

- 67 percent had available at least two options for 50/5 Mbps service;
- 55 percent could choose between two alternatives for 100/10 Mbps service; and
- 35 percent enjoyed two options for 250/25 Mbps service.

The efficient operation of the broadband marketplace sets prices at optimal rates: as this FCC report notes, prices for the most popular broadband packages decreased by 20 percent between 2015 and 2020. Market forces likewise compel providers to respond to consumer demand in terms of speed, latency, and other features – and during that same time period, the speeds provided by those packages increased by 16 percent. Tellingly, however, the numbers presented above make plain that, even where competition exists, upload speeds have not reached anywhere close to as high as 100 Mbps – or even 25 Mbps. One must conclude that this is a result of a lack of consumer demand.

The availability of massive subsidies to overbuild so-called "underserved areas" would lead to excess capacity, in particular upstream capacity, that consumers don't want. But they would end up paying for it, both directly through higher prices and indirectly through higher taxes.

According to the Technology Policy Institute's Scott Wallsten, "[if broadband is defined by having a connection of at least 100/100, then only about 42% of households has access to broadband.](#)" That means that, even though the Commission concluded in its [2020 Broadband Deployment Report](#) that less than 6 percent of Americans lacked access to broadband, under the Biden Plan taxpayer dollars could be used to overbuild existing, privately funded network infrastructure servicing roughly ten times that many people.

As the extensive Further Readings section below attests, Free State Foundation scholars have returned, again and again, to the many harms caused by the subsidization of redundant broadband infrastructure. For good reason. To date, a mostly light regulatory hand has encouraged massive private investment [approaching \\$2 trillion](#), with [approximately \\$80 billion invested annually in each of the last couple of years](#). That financial capital has led to the rapid expansion of infrastructure, higher speeds, and lower prices. Taxpayer-funded entry where service exists, by contrast, discourages further investment, suppresses competition, and can lead to higher prices and less innovation. It also inappropriately directs attention away from the areas that experience the greatest need: those that are, and are likely to remain, unserved.

Consider the following hypothetical: you are an aspiring broadband provider, eager to leverage money from the Biden Plan in order to improve the financial prospects of your endeavor.

Under Scenario A, you can use those subsidies only to target truly unserved areas. As a result, your bids in a reverse auction would be based on the delta between your expected rate of return and the cost to build that infrastructure – a true subsidy, as it were, one that serves to tip a project from unsustainability to viability and reality. As a consequence, consumers become connected and public policy objectives are realized.

But under Scenario B, you also have the option to overbuild one or more existing provider(s), even where speeds as high as 100/10 Mbps are offered. The presence of already deployed infrastructure implies the existence of more favorable economic conditions: perhaps the

population density is higher or the geography less challenging. In that case, you would (1) be less likely to take the greater risk associated with deploying capacity to an unserved area, and (2) base your reverse auction bid on the amount of a competitive advantage, expressed in dollars, needed to undercut the prices of, and thereby tempt customers away from, their current providers. Under this scenario, limited government resources would advance no public policy goal and produce no consumer benefit – no expansion of access, no reduction in prices – but instead result only in a transfer of wealth.

In addition, the subsidization of overbuilds in "underserved" areas could raise the specter of regulatory and policy changes that motivate existing competitors to upgrade their facilities, not in response to marketplace forces or anticipated increased demand, but solely to avoid additional government intrusion into their business operations. This, too, would lead to higher consumer prices.

As noted above, should the definition of "broadband" jump from 25/3 Mbps to 100/100 Mbps, the percent of Americans deemed "served" would drop by well over half, from over 94 percent to only 42 percent. In response, the FCC might reverse its oft-repeated conclusion that, under [Section 706 of the 1996 Act](#), "advanced telecommunications capability" (that is, "broadband") is being deployed in a reasonable and timely fashion – and, potentially, try to use that determination, wrongly, as the basis for a more interventionist pro-regulatory role. Similarly, Congress might rely upon those deceptive numbers as justification for potential new legislation that is excessively regulatory and which misdirects scarce public resources in a way that discourages private investment.

Existing broadband providers, fearing the impact of additional regulation on their business models, might elect to upgrade their network capacity in order to reduce that prospect. But, again, doing so would result in higher costs to those service providers, and ultimately higher consumer prices. As Free State Foundation President Randolph May recently [tweeted](#), this could "create an 'unvirtuous circle' that will dampen America's broadband future." [Some](#) have suggested that this could be a feature of the Biden Plan, not a bug.

In conclusion, the Biden Plan in its current form would have untoward consequences that, intended or not, are foreseeable – consequences that run contrary to its stated goals of universal access and affordability. The American public would be much better served by a more focused, more disciplined approach that targets government subsidies to truly unserved areas with speeds that reflect market and economic realities.

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Further Readings

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Seth L. Cooper, "[Timely Action Will Expand Broadband Amidst the Pandemic](#)," *Perspectives from FSF Scholars*, Vol. 15, No. 44 (August 11, 2020).

Andrew Long, "[Legislative 'Best Practices' to Expand and Accelerate Broadband Coverage](#)," *Perspectives from FSF Scholars*, Vol. 15, No. 42 (July 29, 2020).

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[Comments of the Free State Foundation](#), *The State of Competition in the Communications Marketplace*, GN Docket No. 20-60 (filed April 27, 2020).