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Not All Government Spending on Infrastructure Is Investment

by

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For a long time now, it has been a common rule of almost every politician's thumb to characterize most government spending as "investment." This rule holds true with regard to President Biden's multi-trillion dollar infrastructure proposals, which are now nearing congressional votes.

But clever messaging aside, there's a meaningful distinction to be made between real investment and faux investment. And appreciating the distinction can be useful in assessing the propriety of spending proposals.

First, let's get in mind a proper definition of "investment." Merriam-Webster.com defines investment as "the outlay of money usually for income *or profit*," while Dictionary.com defines it as "the investing of money or capital in order to gain *profitable* returns." Law.com defines investment as "the money put into use for *profit*, or the property or business interest purchased for *profit*." In other words, the expectation of earning a profit is an essential condition to an outlay qualifying as an investment, at least from an economic perspective, if not a political one.

Here's a telling example that nicely demonstrates how the "all spending is investment" rhetorical sleight of hand is abused. In the self-styled FACT SHEET for President Biden's "America's Job Plan," the White House says "we can bring affordable, reliable, high-speed broadband to every American through a historic *investment* of $100 billion." A key component of the plan "prioritizes support for broadband networks owned, operated by, or affiliated with local governments, non-profits, and co-operatives—providers with less pressure to turn profits and with a commitment to serving entire communities."

Aha! There's the rub. The White House makes it crystal clear that government spending will be directed, on a priority basis, to broadband service providers with no interest or obligation to turn a profit!

So, following the ordinary usage of the English language, not to mention corporate finance textbooks, the government spending doled out to municipal governments and non-profits should not be considered an "investment," notwithstanding its (apparent) rhetorical appeal.

If this were of interest only as a semantic debating point, then enough said. But prioritizing local municipalities and non-profit entities over private sector firms to receive a massive infusion of federal spending constitutes unsound policy. It's wasteful and counterproductive. And the way the Biden Administration want to go about implementing the prioritization is likely unconstitutional.

There is now a considerable body of evidence that a high proportion of municipal government and non-profit communications networks are financial failures that end up burdening local taxpayers and saddling bondholders with losses. For example, in the most comprehensive study to date, "Municipal Fiber in the United States: An Empirical Assessment of Financial Performance," University of Pennsylvania researchers Christopher Yoo and Timothy Pfenninger painstakingly examined the available financials for twenty of the most well-known municipal broadband projects. Their findings: "Only two [of the twenty] generated sufficient cash to be on track to pay off the debt incurred within the estimated useful life of a broadband network, which is typically projected to be 30 to 40 years. One of the two success stories is an industrial city with few residents that is unlikely to serve as a model for other cities to emulate." Their conclusion followed naturally: "Many cities managing these projects have faced defaults, reductions in bond ratings, and ongoing liability, not to mention the toll that troubled municipal broadband ventures can take on city leaders in terms of personal turmoil and distraction from other matters important to citizens."

There may be several explanations for all the documented failures of local government networks – lack of experience by city officials in constructing and operating technologically complicated networks and marketing sophisticated communications services to consumers – but surely the absence of the profit motive is one. In other words, the Biden Administration's prioritization of non-profit entities as recipients of government funding means not only that such spending is not really "investment" as properly understood, but that such spending is unlikely to achieve its stated objective of furthering additional deployment.

Moreover, such prioritization of taxpayer-funded entities has deleterious effects in and of itself. Because municipalities generally control access to the rights of way necessary for private broadband providers to construct and operate networks and the required permitting and fee processes, they can disadvantage private providers who are or might wish to be their competitors. Not surprisingly, they often have done so in order to favor their own services. The dual role they play as *regulator* and *competitor* suppresses investment in private broadband networks.

Finally, the Biden plan explicitly contemplates preempting twenty state laws prohibiting or otherwise restricting local governments and non-profits from owning or operating broadband networks. These state laws were adopted in light of the genuine policy concerns outlined above. The proposed federal preemption of state laws clashes with fundamental principles of constitutional federalism. States are well within their sovereign rights to adopt laws restricting the ability of their local governments, which are mere subdivisions or instrumentalities of the state, to enter business markets and compete against private providers.

It's wrong to refer to spending directed to broadband networks constructed and operated by local government and other non-profit entities as "investment." And regardless of how you characterize such funding for messaging purposes, it's unsound policy to prioritize these broadband projects over private-sector ones.

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