Perspectives from FSF Scholars
July 27, 2021
Vol. 16, No. 38

Say No to the Biden Broadband Plan for Government Subsidies and Price Controls

by

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The Ripon Forum
July 25, 2021

The Biden Administration is preparing to reverse free market policies that have helped millions of Americans gain access to broadband Internet services. The Biden broadband plan prioritizes government-owned broadband networks with subsidies over and against private networks. To boot, the plan appears to favor saddling privately-owned networks with price controls.

This unhealthy mix of subsidy privileges for government-owned networks and price controls on privately-owned networks would reduce the incentives of private market providers to reinvest in infrastructure. In consequence, the Biden broadband plan risks slowing broadband deployments to unserved Americans, particularly in rural areas. Congress should stick to the free market approach that has been successful in promoting private investment and accelerated deployments of gigabit and 5G services to all Americans.

By a number of measures, Americans have benefitted from the market-friendly broadband policies that have been in place since early 2018. According to the FCC's 2021 Broadband Deployment Report, the number of Americans living in areas without access to service capable of at least 25 megabit-per-second (Mbps) upload speed and 3 Mbps download speed decreased more than 3.5 million, or more than 20%, between the end of 2018 and the end of 2019. And between the end of 2016 and 2019, “the number of Americans living in rural areas lacking access to 25/3 Mbps service has fallen more than 46%.”

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Fiber passed 6.5 million new unique homes in 2019, a single year record increase. And upgrades have continued, as Ookla reports average fixed broadband speeds of 194.88/68.23 Mbps for May 2021. Also, over 97% of Americans gained access to 4G LTE mobile services with median speeds of 10/3 Mbps or better by the end of 2019. Mobile broadband coverage and speeds are even better today. Ookla reports average mobile speeds of 84.37/13.01 Mbps for May 2021.

Significantly, 5G wireless networks are being swiftly rolled out by three national wireless providers as well as smaller providers. And Americans are adopting 5G services at a faster rate than they did for 4G. This progress is stunning given that no commercial 5G networks operated in early 2018. Optimized 5G can reach speeds 10 times faster than 4G, with peak speeds 100 times faster.

Importantly, these next-generation broadband deployments were backed by strong private investment. According to U.S. Telecom, wireline broadband providers invested $80 billion in network infrastructure in 2018 and $78.1 billion in 2019. Those are the two highest annual investment totals in the last decade. And according to CTIA, wireless industry investment for 2019 increased to $29.1 billion, up from $27.4 billion in 2018 and $25.6 billion in 2017.

The Biden broadband plan turns its back on these free market successes. A White House fact sheet touts prioritized subsidy support for government-owned networks. It misguidedly implies that government-owned networks are superior because they care less about profit-making. In reality, their lack of profitability is a serious concern.

Government-owned networks are financially risky for would-be broadband subscribers and for local taxpayers. Several such ventures have run into steep financial troubles. During the last decade, cities such as Bristol, Virginia and Groton, Connecticut have had to sell their debt-ridden networks in order to cut their multi-million dollar shortfalls. Government-owned networks in Provo, Utah and Burlington, Vermont also have been sold at firesale prices to private providers.

In some instances, local citizens have been saddled with tax increases or service rate hikes to pay the debts of government-owned networks. For example, Longmont, Colorado and Clarksville, Tennessee have used their energy utility customers to subsidize their broadband networks. Tacoma, Washington also used electric utility revenues to prop up its failing broadband network – before selling the network at a heavy loss in 2020.

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The Biden plan appears unmoved by the poor track record of government-owned networks. Furthermore, the Biden plan appears to myopically treat profits as an effect of high prices. Yet profits are as much a result of operating efficiencies and innovations that reduce production costs.

Additionally, government-owned networks deter private investment. Private market competitors are less likely to compete against the governments that also regulate them. Local governments that own broadband networks have an inherent conflict of interest. They can privilege their own networks in rights-of-way and other permit processing, imposing higher fees and longer wait times on their market rivals. And local governments can charge high rates to private market providers seeking to attach fiber cables to municipally-owned utility poles.

It is not wise policy to priority subsidize government-owned networks with questionable long-term financial viability and no experience running businesses in markets characterized by high capitalization, cross-platform competition, and continuous technological change. Congress should not spend billions on local government businesses that likely will be permanently dependent on subsidies for survival.

Bringing broadband services to Americans in less populated rural and remote areas is a challenge because those areas can be extraordinarily expensive to reach. Congress can help overcome that challenge with market-based approaches that target subsidies to unserved areas. Using reverse auctions, broadband providers that offer the lowest bid amount "win" subsidy support to build facilities in designated areas. This lowest-cost, market-based approach has been used by the FCC, including in its recent Rural Digital Opportunity Fund auction.

The American Broadband Act, unveiled on May 20 of this year by Representatives Cathy McMorris Rodgers and Bob Latta, also takes a market-based approach to bringing broadband to unserved areas. The Act would establish a grant program with the National Telecommunications and Information Administration (NTIA) that would dedicate up to $20 billion over five years to support broadband infrastructure buildout to unserved areas. NTIA would rely on updated broadband coverage maps and direct the grants to unserved rural areas. A $3 billion grant program for expanding rural access to wireless broadband services would also be administered by NTIA.

Maintaining a pro-investment environment also will help extend network buildout to Americans who are still lack broadband access. However, the White House's statement that its plan would "reduce internet prices for all Americans" implies that the government will impose rate regulation on broadband services. Rate regulation would restrict broadband providers' ability to seek returns on their investments. The effect of imposing price controls would be reduced incentives to reinvest in network infrastructure and slower deployments to unserved Americans.

Congress should say “no” to priority subsidies for government-owned networks. And it should reject price controls on private broadband Internet services. Promoting private investment in competing wireless, wireline, and satellite networks offers the best way to increase access and keep prices in check.

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