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**Government-Owned vs. Private Networks:  
Allocate Federal Broadband Subsidies Based on *All* the Facts**

by

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**I. Introduction and Summary**

Are government-owned networks (GONs) the "nepo babies" of the broadband service marketplace? Do they receive special treatment solely due to the privileged positions of those that bring them into being? A [case study](#) recently released by Ellis Scherer of the Information Technology & Innovation Foundation (ITIF) reached the measured conclusion that, given the inherent incentives and documented instances of favoritism, state broadband offices and the National Telecommunications and Information Administration (NTIA) should gather all of the facts before awarding Broadband Equity, Access, and Deployment (BEAD) Program funding to municipal government-submitted proposals. An evidence-intensive approach: hardly a controversial proposal, one would think.

After all, when choosing between competing grant applications, decisionmakers strive to identify the one best able to connect and successfully serve over the long term those locations currently without broadband. To the extent that undisclosed administrative preferences, hidden subsidies, and other furtive fingers on the scale have the effect of overstating the competency of

government applicants vis-à-vis privately funded competitors, they risk making the wrong choice. As such, it seems noncontroversial that the goal should be apples-to-apples comparisons, enabled by full transparency, that ensure the optimal allocation of the BEAD Program's \$42.45 billion in federal subsidies.

In a strongly worded [statement](#) elaborated upon in a [LinkedIn](#) post and a [Fierce Network](#) article, however, American Association for Public Broadband Executive Director Gigi Sohn recrafts Mr. Scherer's ITIF case study into a strawman that allegedly "attack[s] the ability of a local community to determine its broadband future" and "uses a lot of weasel words in an attempt to demonstrate that community networks are not worthy of support."

To the contrary, Mr. Scherer expressly recognizes that "[p]olicymakers should not have universal, a priori aversion to GONs" and that "GONs have a role in broadband deployment in the United States."

But in situations where decisionmakers have before them competing applications for BEAD Program subsidies, Mr. Scherer merely concludes that they "should adopt an approach to broadband policy that ensures the comparison of like with like before choosing a GON over private alternatives."

In other words, Mr. Scherer suggests a thorough vetting process that considers all the evidence before awarding BEAD Program grants. Given the large body of documented evidence demonstrating the frequent failures and financial difficulties associated with taxpayer-funded GONs, it's hard to argue with that.

## **II. Full Transparency Can Expose and Address Government Self Interests**

In "[Government-Owned Broadband Networks Are Not Competing on a Level Playing Field](#)," ITIF's Ellis Scherer makes the imminently reasonable recommendation that "[s]tates should be careful about using Broadband Equity, Access, and Deployment (BEAD) funding to make GONs sustainable." BEAD Program subsidies, after all, are federal taxpayer dollars. It therefore is not only appropriate, but imperative, that that money be allocated to its highest and best use.

But as has been thoroughly documented, not only by Mr. Scherer but also the deep bench of Free State Foundation-affiliated scholars cited in the *Further Readings* section below, that to the extent that GONs do make a go of things, it's typically because of biased treatment vis-à-vis privately funded alternatives: expedited access to rights of way and other administrative advantages, cross-subsidization, more favorable tax treatment, and so on.

Such preferential treatment can obscure – and overstate – the true financial performance of GONs, a point made well by Theodore R. Bolema, member of the Free State Foundation's Board of Academic Advisors and a Senior Fellow at the Mackinac Center for Public Policy, in "[Hiding the Subsidy: The Financial Transparency Problem With Municipal Broadband Systems](#)," a February 2021 *Perspectives from FSF Scholars*. It also can discourage subsequent competitive entry by privately funded Internet service providers (ISPs), as Michelle P. Connolly, Ph.D., another member of the FSF Board of Academic Advisors and Professor of the Practice in the

Economics Department at Duke University, described in "[The Adverse Impact of Municipal and Cooperative Internet Service on Entry and Competition](#)," a November 2022 *Perspectives from FSF Scholars*.

Lest we forget – and contrary to the [reported claim by Ms. Sohn](#) that "broadband is a utility just like water, electricity and roads" and that "[t]hese are entities that are filling a need for a necessary service' and were not created to turn a profit" – it is precisely the possibility of a reasonable return that has propelled [more than \\$2.2 trillion in private investment since 1996 in fixed infrastructure alone](#), connected the vast majority of American households to broadband, and fostered a vibrantly competitive marketplace in which countless providers leveraging a wide range of distribution technologies compete for, and to the benefit of, consumers.

To be clear, there is a significant degree of overlap between general concerns regarding GONs and those specific to the use of federal BEAD Program funding for their construction. The latter, however, raises additional reasons for pause. Where a municipality chooses to risk resident-raised money on a GON, local leadership is accountable, at least to some degree, to its constituents. Should the project fail – say, due to inexperienced management – or survive only because of cross-subsidization between or among the GON and utilities such as electricity or water, the residents who suffer the resulting economic harm generally can vote to replace those responsible during the next election cycle or otherwise make their voices heard at the local level.

The BEAD Program, by contrast, involves federal tax dollars – house money, if you will. When BEAD Program grant recipients fail to deliver on the promises put forth in their applications, the financial fallout will not be felt with the same immediacy. Nor will it compel the same level of local accountability. As a result, the potential for waste is higher.

In both scenarios, transparency is important. Equipped with all relevant facts, local residents and, in the case of the BEAD Program, state broadband offices and NTIA, can evaluate the true potential and performance of GONs and privately funded ISPs on an apples-to-apples basis.

To be clear, that is what Mr. Scherer advocated:

The federal government should take a broader, society-wide look to ensure efficient use of resources, accounting for the unlevel playing field between GONs and private ISPs. In practice, this would look like prohibiting any BEAD funding to GONs unless they are treated exactly as a similarly situated private-sector ISP would.... This case study shows that GONs often get favorable regulatory treatment and other advantages that make them look like a better option than private ISPs when, in fact, private ISPs would be better for consumers if they got the same treatment. Understanding where GONs fall short in providing Internet access is critical for that decision-making process.

### **III. Conclusion**

Municipal governments have the ability and the incentive to advantage their own broadband networks over those of competitors. And there is a documented track record showing that they do

so. That favoritism can overstate and obfuscate the financial performance of GONs. It therefore is self-evident that, when determining how to allocate federal taxpayer-funded broadband subsidies between government- and privately-owned competitors in the most economically optimal manner, decisionmakers must have all the facts before them.

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### **Further Readings**

Seth L. Cooper, "[Risks Posed by Government-Owned Networks Justify State Law Limits](#)," *Perspectives from FSF Scholars*, Vol. 19, No. 22 (June 20, 2024).

Seth L. Cooper, "[Solid Reasons to Keep Limits on Government-Owned Broadband Networks](#)," *FSF Blog* (May 17, 2023).

Michelle P. Connolly, "[The Adverse Impact of Municipal and Cooperative Internet Service on Entry and Competition](#)," *Perspectives from FSF Scholars*, Vol. 17, No. 57 (November 4, 2022).

Andrew Long, "[The Goal of Broadband Subsidies Should Be to Connect the Unserved, Not Promote Municipal Networks](#)," *FSF Blog* (August 9, 2022).

Seth L. Cooper, "[NTIA's Broadband Subsidies Must Respect State Law Limits on Government-Owned Networks](#)," *Perspectives from FSF Scholars*, Vol. 17, No. 28 (May 26, 2022).

Seth L. Cooper, "[NTIA Lacks Authority to Cut Broadband Funds From States That Limit Municipal Networks](#)," *Perspectives from FSF Scholars*, Vol. 17, No. 13 (March 7, 2022).

Andrew Long, "[New Study Once Again Dispels Municipal Broadband Viability: And Affirms the Wisdom of State Bans](#)," *Perspectives from FSF Scholars*, Vol. 16, No. 44 (August 18, 2021).

Randolph J. May and Seth L. Cooper, "[Biden Broadband Plan Favoring Government-Owned Networks Lacks a Constitutional Foundation](#)," *Perspectives from FSF Scholars*, Vol. 16, No. 24 (May 11, 2021).

Theodore R. Bolema, "[Hiding the Subsidy: The Financial Transparency Problem With Municipal Broadband Systems](#)," *Perspectives from FSF Scholars*, Vol. 16, No. 8 (February 12, 2021).