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# Broadband: A Basic Right?

BY MAX BORDERS

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It's 2006. You really want broadband high-speed Internet connection, but you live in a small American city with a population of 100,000. So the broadband providers have decided it would not be profitable to come to your town at this time. What do you do? First, get mad. Then, form an interest group. Finally, lobby your municipal government until it provides the service for you.

Such is basically the tale of Lafayette, Louisiana, and it reflects what to many is a disturbing trend of municipalities offering broadband as if it were a public utility like water or sewerage. The story, now known as “The Battle of Lafayette,” also reveals the symptoms of “demosclerosis”—Jonathan Rauch’s term for government failure due to rapacious special interest.

We tend to associate what economists call “rent-seeking” with Washington, D.C., where parasites stand to gain by lobbying for either anti-competitive regulation or subsidies. Benefits accrue to only a few groups: those on whose behalf the lobbyists are working, the politicians (in the form of perquisites and happy district constituents), and the lobbyists and lawyers themselves. The costs are spread thinly over the rest of us in the form of higher taxes and/or a dead-weight loss to the economy.

But Washington has no monopoly on rent-seeking. At the municipal level its consequences can be dire. The concentrated benefits and dispersed costs are more difficult to mask when you’re talking about a hundred thousand people versus three hundred million.

Parasites? Isn’t that a little unfair? After all, the people of Lafayette have legitimate concerns. They want to develop—that is, to keep up with the rest of the country technologically lest they be left behind. As they see it (and by “they” I mean the town council, the folks demanding broadband, and the government-controlled public utility), a \$135 million investment is an investment in *infrastructure*—something that should be considered a public good for the people of Lafayette. They

had been perfectly willing to let so-called “incumbents” (BellSouth and Cox Communications) come in and provide this good at a reasonable price. But Big Telecom didn’t. Therefore, shouldn’t the people of Lafayette have a right to connect more quickly? Shouldn’t they have broadband too?

The unfortunate aspects of this view are manifold. First, it fails to take into account the wider implications of municipalizing broadband (to which we’ll turn in a moment). Also, some of the best and brightest technologists on earth are behind these efforts, giving folks the impression that brilliant coders know what’s best for the economy simply because they might have worked on protocols for the Internet. But more unfortunate still is that the Lafayette scenario could set a precedent for other municipalities to work under the mistaken notion that government-owned and government-operated broadband is a good idea.

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Intellectual honesty check: shouldn't we wonder why Big Telecom didn't come to Lafayette? Some say these companies are driven only by their lust for profit. Yes. But the better answer is that it was cost-prohibitive. In other words, no one thought he could do it without operating at a loss. If anyone in Lafayette really thought he could make money providing broadband, why didn't he seize the entrepreneurial opportunity rather than see broadband as a good that should fall like manna from heaven or from the Lafayette Utility Service?

The Citizen's Action Committee for Fiber-Optic Broadband (or whatever) knew exactly what Cox and BellSouth knew—that broadband in Lafayette was a losing proposition. Despite however many “market studies” the government and Chamber of Commerce can trump up, the proof is ultimately in the unwillingness of Cox and Bell South to move into the Lafayette market. Thus the only way for the interest group to get what it wanted was simply to take it from other citizens.

Lafayette isn't walking this road alone. Other towns are doing it. And they've got the beginnings of a D.C.-sized interest group forming behind them as I write. In fact, the demand for immediate universal broadband was the dominant theme at the recent Freedom to Connect (F2C) conference in Washington. (Don't be confused by the name. “Freedom to Connect” is a freedom in the same way that a “right to health care” is a right.) The “monopolists and duopolists”—goes the story—have priced most people out of the market. And the gross disparity between the broadband haves and have-nots is due to the profit-seeking behavior of the usual suspect—Big Telecom. So for adherents of the open-access movement to be “free to connect” amounts to varying degrees and means of broadband socialization. Here are a few of those proposed means:

- Encourage municipalization of broadband, exemplified by the Lafayette case. (In other words, allow local governments to begin entering the market.)
- Change the FCC's framework from regulating the entire telecom service to focusing on companies' hori-

zontal layers, for example, content, application, network, or physical infrastructure.

- Use tried-and-true trust-busting in court.
- Appeal to legal precedents like “nondiscriminatory” rules, such those used against railroads and seaports over a century ago, which forced property owners to lease their services to all comers. (The recent Brand X decision by the Supreme Court protected cable companies from being forced to open their lines to broadband competitors.)

Curiously, all these nostrums are suggested in the name of greater competition.

But we should step back and ask: what creates big broadband duopolies? Sometimes it's simple economies of scale. If you want a big, expensive project done, you need a big, expensive company to do it—of which there are not many. Barriers to market entry for smaller com-

panies often come simply in the fact that the initial capital investment is too big. Even if we overlook other barriers to entry created by the current regulatory regime and costs such as city fees, we still have an expensive venture in building a broadband infrastructure. Entrepreneurs in Lafayette know this. But since the municipality will act with taxpayer money and spread both the risk and the costs over its citizenry, it won't have to behave according to pesky market laws.

As in many other efforts to save the world by distorting the laws of supply

and demand, advocates of “open access” say that within the United States there are a number of “digital divides,” between rich and poor, between urban and rural, and between white people and certain minorities. To bridge this divide, government must take action. To illustrate this, they go on to cite broadband-access rates in other countries to show that U.S. per capita broadband access is lagging. (My own statistics come from the Congressional Budget Office.)

So why aren't the rates greater in the world's richest nation? The reasons are numerous, but require only a modicum of common sense. Consider the size and population density of the United States. Now consider the

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size and population density of the world's broadband leader, South Korea. The economies of scale for offering broadband to every person in South Korea are considerably different from those in most of the United States.

According to CountryStudies.us, "South Korea was one of the world's most densely populated countries, with an estimated 425 people per square kilometer in 1989—over sixteen times the average population density of the United States in the late 1980s." One will find that other, more-densely populated and culturally homogenous countries are "ahead" of the United States in Internet access, since (naturally) it's cheaper and less risky to invest in broadband infrastructure in densely populated areas.

Even in a large country like Canada (said to rank number 2 in the world behind Korea in broadband adoption), 90 percent of the Canadian population lives within 100 miles of the U.S. border, government broadband subsidies notwithstanding. Again, common sense says that as the technology matures and as the price goes down, access rates will increase—even into the thickets of rural America and the public-housing blocks of Detroit.

### Why the Divide?

Great. But why is there a broadband divide between ethnic groups in the United States? Aren't poorer people priced out of the market by monopolists? Or is it creeping racism? Maybe. But if such were true, wouldn't people similarly be crying foul about other divides?

With other technologies, divides hardly exist, if they exist at all. Consider mobile phones, which are comparably priced to broadband connections on a monthly basis. What about videogame consoles? Aren't Xbox and Playstation the products of a duopoly? Television sets, cable, and DVD players? Again, divides here are virtually nonexistent. Why the difference?

The reason may be that people place different values on these things, and those values can be an ethnic and cultural phenomenon. As unfortunate as it may be to middle- and upper-class America, a family in the inner city may place greater value on a Playstation or a cell phone than on broadband. Someone living in a rural area may be more likely to invest in a satellite dish than

an Internet connection. We all face opportunity costs.

We can't assume that a bar graph about broadband access can tell us anything other than what groups of people are more or less likely to value. "Well," one might say, "they *ought* to value broadband because it can provide so many more opportunities for them." Fortunately, markets don't work by what intellectual elites think people should have.

And what about the satellite dish? Isn't this another example of a competitive technology that filled the void in the lives of rural people that cable was unable to fill? Given another year or so, analogous technologies will begin to fill any broadband void that might be out there—*especially* if the U.S. government will let go of more of the spectrum.

The speed of innovation is blinding. Before World War II, Stalin built state-of-the-art factories in Russia. By the time the Soviet Union collapsed in the 1990s, the people of Russia were still using post-World War II factories. The point is that government projects are notoriously bad at keeping up with the pace of technological change.

Have you ever heard of Minitel? If so, probably only as the butt of a techno-geek's joke. Minitel was the French government's proto-Internet—a communication device designed for use by every French citizen. Of course, Minitel was soon forced into virtual obsolescence by the Internet and arguably never paid itself off (even by the standards of state utilities). The mantra of the tech market is: Better. Faster. Cheaper. Now say it again fast.

The irony in all this is that for the Louisiana case, poor, hard-working taxpayers will have to shoulder much of the burden to subsidize the more well-to-do people of Lafayette who want broadband. There are some vital questions the city leaders should be asking: Are we making the best possible use of other people's money? Given a finite set of tax revenues, are there more important things that we could be investing in? Is the water clean? Are the police and firemen adequately equipped? Are we going to hang the town on too risky a venture? If the city is wrong about this broadband bet, Lafayette can kiss sewage treatment and police cruisers goodbye.

