Public Versus Private Investment in Broadband*

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by John DeRidder

There is a tension between under-investment without public investment (the *"externalities"* issue) and public investment *"crowding out"* private investment (the *"level playing field"* issue). Taking the latter approach puts national broadband plans and state economic development at risk.

An example of this playing-out is when on April 4th the State Legislature of North Carolina passed Bill H129, subsequently ratified by the State's Senate, to *"level the playing field"* across public and private operators of fast broadband networks. In the same month Tennessee shelved legislation that would have allowed its local power utility and state-of-the-art broadband provider EPB to expand its service beyond its current operational area.

The NC curbs on public investment are intended to prevent unfair competition from *"predatory"* local governments by loading the prices of community networks with a commercial rate of return and the taxes and charges that would apply to a private operator. This *"leveling of the playing field"* argument sounds reasonable, but it ignores the main reason for public enterprise.

The fundamental reason for public enterprise is that it can make investments taking into account benefits that will not appear on its own books. Put another way, public enterprise can undertake unprofitable investment where there are community benefits (what economists call *"positive externalities"*) that would make the investment economically and socially desirable.

Few would have a problem with public broadband investment in regional areas where private investment is unprofitable. But, what about urban areas where private broadband networks may fail to recognize local demand? Advocates of public investment point to the Greenlight Community Network in Wilson, NC, which provides *"up to"* 100Mbps while the local cable company, Time Warner, offers Wilson residents "blazing speeds" of just 15Mbps on its Road Runner plan. H129 blocks the development of new community networks providing faster services than existing operators are willing to offer.

Why is this so? One important reason for restricting speeds is to protect margins on legacy data products sold to business. Incumbents prefer to sell existing data services than provide broadband services where they cannot differentiate so easily between business and residential customers. Contrast that with EPB's network which is scaled to support 1Gbit/s to anyone - business or residential customer - that needs such speed.

There are no easy answers.

In other countries, an appropriate remedy is service competition enabled by forcing existing operators (not just the new public operators stipulated in H129) to open their networks (i.e. provide wholesale services). Currently, the FCC does not mandate open access for new fiber access networks, let alone existing broadband networks.

For new investments in *"under-served"* areas, a possible remedy is to provide a capital grant or subsidy to a private operator to make an investment profitable. This could be done through a public tender process. Conditions should also be attached to make the chosen network operator provide open access to enable competing services to be offered over the same network.

A practical and globally tested alternative is public investment in community networks such as Greenlight and EPB.

Our preliminary view is that while the focus of community networks should be "un-served" or *"under-served"* areas, there is no need to confine them outside city limits. Urban areas can justify some duplication and investments in existing networks are sunk and partly depreciated so they can compete on cost. Without un-fettered investment in community broadband networks, the economic and social benefits for all regions will not be realized.

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