

Life, Liberty and High-Speed Broadband?

Commissioner Roger Koopman

“WE hold these Truths to be self-evident, that all Men are created equal, that we are endowed by our Creator with certain unalienable Rights, that among these are Life, Liberty and High-Speed Internet.”

Declaration of Independence (updated)

Not long ago, the Montana Public Service Commission approved by a 4 to 1 vote (this commissioner dissenting) the renewal of Commnet Wireless’s “ETC” certification, authorizing that company to receive a federal “Lifeline” subsidy of \$34.25 for every customer on the Northern Cheyenne Reservation – an amount sufficient to render their service free to most users. Previously, this same company had received \$2.2 million in USF “high cost” subsidies to build their infrastructure in Rosebud County. This subsidy paid for all of their capital costs in establishing their business, debt-free, while producing for them a tidy annual profit of almost \$1 million.

It seems that Commnet Wireless is “living the American Dream” – at everyone else’s expense.

The Commnet example is not as anomalous as you might think. Faced with recertifying 25 other telecoms as ETCs (Eligible Telecommunications Carriers), Montana commissioners interviewed two well-regarded companies deemed highly representative of the group. They testified that between one-third and one-half of their current annual gross revenues are derived from federal Universal Service Fund (USF) subsidies, and warned that the removal of these subsidies would be “catastrophic” to their businesses. Sadly, they were admitting that they are essentially one-third to one-half socialized, and that they believe the federal feeding trough is what keeps them afloat. Boldly, these “Sub-Entrepreneurs” proclaim, “Give me subsidy or give me death!”

That degree of private business dependency on government support ought to give us all pause. Meanwhile, consumers in outlying, higher cost areas are being led to believe that inexpensive broadband service is some kind of inalienable right, apparently ensconced in our founding documents. All consumers are being taxed on their phone bills, so a few consumers may benefit. All states are taxed, so some states may benefit. In Montana’s case, it should be no source of pride to know that we pay a mere 35 to 40 percent of the subsidy cost, resulting in a \$40 to \$80 million annual subsidy from other states, gift-wrapped by the FCC.

The Universal Service Fund was first created by Congress in 1934, and greatly expanded under the Telecommunications Act of 1996. It is funded by a dedicated federal tax on consumer phone bills (which, ironically, make the very services Congress wishes to expand less affordable,

especially to lower-income Americans.) The program is premised on the belief that an ever-expanding set of telecommunications services are the “right” of all citizens, and should thus be made “universal” by the generosity of Washington’s redistributionist political class. The program started with landlines, then expanded to wireless and is now being applied to broadband as well. The Lifeline program gives away free cell phones and subsidizes low-income and tribal households. The Connect America Fund and “High Cost” programs directly subsidize telephone companies, as well as schools, libraries and rural health care facilities. USF’s total annual budget is currently \$10.5 billion, or \$84 per American household.

Like all federal programs, USF proceeds blindly with the assumption that shoveling federal dollars at something automatically produces the desired outcomes – outcomes that would not otherwise happen if people were left to spend more of their own money, and the marketplace was allowed to respond to human needs and desires absent government intervention. It’s not surprising to learn then, that the FCC has never reliably measured to what extent the subsidized telecommunications services would have expanded just as much – or more – into the targeted high-cost areas, without any subsidies needed – and done so at lower cost.

In a public comment submitted to the FCC in 2011, the Mercatus Institute referred to the FCCs evaluation of subsidy effectiveness as “McMeasures.” Said Mercatus:

“McMeasures are actually a clever way of converting an input measure – dollars spent – into something that looks like an outcome measure, but isn’t. When an agency uses such measures, there is no way the program could be found to be ineffective, since dollars spent automatically signify measured success. For this reason, McMeasures do not actually indicate whether or not the program is successful. To determine how much increase in deployment or subscribership a subsidy actually caused, one must compare the level of deployment or subscribership in the presence of the subsidy program with a counterfactual assessment of what would have occurred in the absence of the subsidy program.”

The time has come to re-think wealth transfer schemes like the USF, that eliminate price signals, supplant the free market, and create the net effect of increased government dependency and a culture of entitlement. As with any other good or service in a free economy, consumer demand for rural high-speed broadband should be based on the willingness of consumers to pay for the full cost of that service -- not based on political pandering that subsidizes one man at another’s expense. A shell game with predetermined winners and losers, lacking any credible metrics and amounting to little more than a glorified multi-billion dollar welfare program.

Currently, broadband build-out into high cost areas is based almost entirely on *artificial* demand – created by subsidy – rather than on *true* demand, created by value-seeking consumers in the marketplace, responding to the price signals of true cost. If consumers in outlying areas value fiber-delivered high-speed internet enough to pay the full cost, then we have genuine demand and the market will see to it that these services are provided – without *any* government involvement. If consumers are unwilling to pay the true cost, then demand does not exist, and presumably won’t exist until private enterprise finds ways of delivering better service at a lower price. But that incentive disappears when the government steps in. Saying we “want” something as long as somebody else pays for it is not demand. It is little more than theft dressed up in fancy

duds, through the agency and power of government. Personal responsibility – the foundational principle of a free society – is replaced with the principle, “I want, therefore you pay.”

The current cost for building broadband or wireless infrastructure into rural and low-population areas is obviously higher on a per-customer basis – perhaps 50 to 100 percent more. But lest we forget, one of the fundamental principles of sound economics is the alignment of benefits with costs. When you subsidize a good or service, you immediately create misalignment. You can no longer know what people are willing to pay as consumers, because the government has gotten somebody else to pay for them. Not only does this arrangement tend to convince rural customers that the full price is “unjust” to those who have chosen to live in the country. At the same time, it obstructs the very progress that would bring lower prices about. The subsidized companies have a reduced incentive to economize and to innovate, since their profit is all but guaranteed without it.

Public service commissioners everywhere need to understand that it is not the job of the state commissions to rubber stamp federal programs we don’t believe in -- programs that we know in the long run, will be harmful to the people we serve. Subsidies like USF produce obvious beneficiaries. Government giveaways always do. They are highly visible. The market-driven benefits produced by those same dollars, left in the hands of those who earned them, are always far greater, but cannot be specifically identified or “seen.” They become the opportunities lost, the blessings of liberty that were aborted before their birth. Thus, government creates an illusion of value and benefit, when in reality all it has done is substitute government spending for spending in the marketplace by the frugal, self-interested, wage-earning consumer. The fantasy of a net benefit is bestowed on the person who wasn’t involved in the working or the earning – convinced by politicians that he had it coming all along. It’s somewhere in the Declaration of Independence, they think.

Once established, climbing out of the Subsidy Entitlement Pit is never easy. The smoke and mirrors of perceived benefit is so effective, that it becomes very difficult for elected office holders to do the right thing, by choosing freedom over political security. It is far easier to avoid criticism and “go with the flow.” To be sure, doing the right thing and doing the easy thing are rarely companions that walk the same path. Doing the right thing requires an extra measure of principle, courage and integrity. But if we truly honor the people we are elected to serve -- and the Constitution we are sworn to defend -- then doing the right thing is the only option commissioners have. No matter how large and tempting the subsidy, freedom is not for sale.

A 37-year small businessman and two-term state legislator, Roger Koopman is currently serving his second four-year term on the Montana Public Service Commission.