



# Municipal Broadband Compact

ideas in action ★

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## **The Municipal Broadband Compact**

### Limiting the Role of Municipalities in Broadband Services

#### **Preamble**

The role of municipalities in the provision of broadband services is a subject of much debate. An increasing number of local governments are proposing either to build and operate broadband networks for residential and business use, or to develop broadband infrastructure for wholesale lease to commercial service providers. But to allow townships, cities, counties and even states to directly compete against the private sector undermines technological progress and violates fundamental principles of American free enterprise.

As scholars and analysts specializing in broadband policy, we recently convened online to examine the issue. Empirical research and economic rationale guided our deliberations, as well as the recommendations that conclude this Compact. (The signatories are listed at the end of this document.)

#### **Findings**

Currently, a relatively small number of municipalities and public utility districts provide broadband services via cable modem or telephone lines. Proposals for such systems are pending in a variety of locales; hundreds of other communities are actively considering publicly owned and operated wireless Internet systems or some form of “public-private partnership.”

Some elected officials seem to believe that government deployment of broadband will attract high-tech jobs and business investment to their region. Ironically, publicly subsidized broadband services actually discourage private investment. To the extent government assumes the role of service provider, there is less opportunity and incentive for a private firm to enter the market. Moreover, municipalities have largely proven to be incapable of keeping pace with technological change.

There is no evidence of the “market failure” that might otherwise excuse government intervention in broadband service. Penetration rates and bandwidth supply are rapidly rising, while broadband prices are falling. Meanwhile, many — if not most — of the municipal systems that provide residential service fail to generate enough revenue to repay the public debt incurred to create them.

#### **Principles**

The following principles are necessary elements of sound broadband policy:

1. Internet-based commerce must be allowed to operate according to consumer demand and market forces, unburdened by price controls, service mandates, access regulations, taxation or censorship.

2. Rules governing Internet use and electronic commerce should result from private collective action, not government edict.
3. Protection of private property rights is a necessary condition for the profitability and growth of the digital economy.
4. Government can best encourage broadband deployment by eliminating tax and regulatory barriers to broadband investment and market competition.
5. Technological innovation has rendered existing regulations wholly obsolete. Outmoded regulatory regimes threaten to undermine the affordability and availability of new products and services.
6. Municipal interference in broadband displaces private investment, distorts prices and forces taxpayers to subsidize services they may not use.

## **Recommendations**

To optimize broadband deployment, we recommend the following:

1. Access to broadband can often be expanded by eliminating unnecessary regulations that delay, raise the cost, or even effectively ban the construction of new network facilities.
2. Municipalities and other local units of government should be prohibited from investing in, managing or operating broadband infrastructure and services.
3. Congress should restrict the authority of states to regulate and tax broadband infrastructure and services in the interest of preserving interstate commerce.
4. Telecom taxes and cable franchise fees should be eliminated to encourage investment in broadband services.

Signed:

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