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Paying for the American National Broadband Internet Plan

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Eighteen months ago, candidate Obama argued in his campaign that America had lost its leadership in the world of the broadband internet. Late last month, the Federal Communications Commission delivered to Congress a 360-page plan to change all that.

It is an impressive document in terms of sheer information and scope. Its recommendations, though not especially novel, taken together will make a positive difference to the country's infrastructure. The plan recommends support for rural broadband and mobile networks, broadband subsidies for the poor, support for small business use, for job creation, public safety, Native American tribes, digital literacy, a national 'geek corps', plus various governmental efforts for e-health, education, energy conservation, and more.

An ambitious agenda, no doubt. Given the scope of the plan one would expect a hefty price tag, with justifications provided for its importance. Yet it is here that a plan for innovation veers off into a more traditional Washington mode of communications, that of smoke and mirrors. The plan claims that all of its provisions will cost the government nothing: "…the overall plan will be revenue neutral, if not revenue positive."

This claim is misleading. The money to implement the plan would be raised in several ways. First, by selling a lot more spectrum licenses. This makes sense in terms of efficiency but it's not free money. Spectrum isn't just sitting around. Present users would be pushed off their band and would need compensation or relocation to another band. New buyers deduct the expense from their taxable income. And, of course, the money raised from the sale of the spectrum could support other worthy causes, such as energy research or the renovation of schools and bridges. It may make sense to sell spectrum but it does not follow that the proceeds should go to rural broadband, or that the revenue collected has no budgetary offsets.

It would be one thing if the money would be used to for investment in long-lasting infrastructure. But part of it would be used to subsidize lower Internet prices. In other words, we would be selling scarce long-term public assets to pay for current private consumption.

A second funding mechanism that is proposed is a charge on TV stations' using their free TV. To deal with the consequences to poor people would require their receiving instead free cable TV or satellite service. This would either have to be paid for by government or mandated on cable and satellite companies. Either way, this too is money that could be spent in alternative ways.

Next, the plan wants to take money from the telecom 'universal service fund' and 'lifeline" programs and move it to a new 'Connect America' fund which would support the buildout of high speed broadband. This means that phone service for many people would become more expensive in order to subsidize rural and low income internet. These are not necessarily the same users. Those with no interest in broadband would only see their phone bill going up. It is doubtful that the support for rural telecom companies and users would be cut, given its political strength. More likely, the new programs would be additive and require a new support source for support.

Such a source of funding, the plan proposes, would be the 'broadening of the contribution base". Practically speaking, this funding mechanism, which would be off-budget, would be a tax on internet connectivity and use in anything but name, and a regressive one at that. It would retard what we want to encourage—the broadband internet.

The FCC plan gets high marks on effort. Spreading high performance broadband internet across America is a worthy goal. Many of the plan's elements deserve adoption. But the plan's financial bottom line flunks economic credibility. This is not even good politics, except in an environment where the assertion of getting something for nothing has become the bipartisan norm.