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## Free Enterprise: Stimulus funding could improve broadband

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Would you like to watch high-definition TV over your Internet connection? Of course, for many home users of high-speed broadband services this is already reality. Such high-speed connections are also commonly used by corporations and universities to make online "face-to-face" meetings and lectures possible.

It is, perhaps, this ubiquity of high-quality and lightning-speed Internet connections at institutions of higher learning that made students in my "Public Finance and Public Policy" lecture perk up when we were analyzing sections of H.R.1, known as the "stimulus bill." Specifically, the fact that the bill allotted a whopping \$7 billion for the "broadband technology opportunities program" caught my students' attention.

That part of the heroically titled American Recovery and Reinvestment Act of 2009 aims at increasing the availability of broadband connections throughout the United States, but especially in rural areas. Promoting this objective, the language of the bill requires that "50 percent" of the broadband funds support projects in rural communities."

Apart from the legitimate criticism that one can level against the efficacy of many of the "stimulus bill" provisions (Harvard economist Robert J. Barro, in a recent journal article, makes fun of what he calls "Voodoo Multipliers"), there are numerous items in it that may, in fact, improve future economic growth. After all, even a blind chicken finds corn from time to time - and throwing around hundreds of billions of dollars in spending cannot possibly be done without some of the money landing in the "right" spots.

The broadband investment, if done correctly, may very well turn out to be one of those. As one recent peer-reviewed academic paper stated, "the broadband Internet readiness of a country becomes an increasingly significant aspect of affecting a country's global competitiveness." Of course, by that yardstick, the United States is currently far behind.

According to 2008 numbers collected by the Organization for Economic Cooperation and Development, the U.S. finds itself in 15th place among 30 industrialized nations in terms of broadband subscribers per 100 inhabitants. (The data are available at <http://tinyurl.com/46ts8d> [1].) Consequently, any effort for a sustainable increase in broadband availability has the potential to greatly impact our nation's preparedness for the economy of the future.

Korea, where even five years ago 78 percent of households subscribed to broadband, is the world's foremost case study in how to achieve broadband penetration the right way. A 2007 analysis titled "Why Japan and Korea lead the USA and Europe in broadband" emphasized, apart from population density, "the role played by ... 'disruptive competitors;' the importance of competition between technologies and the significance of ... regulation."

These lessons need to be applied once the spending of \$7 billion starts. It will not be enough to willy-nilly lay new fiber-optic cables in places where they are missing. Foremost, new broadband connections need to reach the very people who are actually interested in and capable of using them in productive ways. Furthermore, regulatory schemes, which make it harder to compete with entrenched providers (yes, that is the reason why you pay significantly more than many subscribers abroad), need to be streamlined.

Depending on those conditions, this program will either accelerate our entry into a high-speed future or it will end up being a very costly high-speed chase. One knows from high-definition reality TV how the latter usually ends.

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