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Broadband in rural America

Sweet land of subsidy

A new subsidy promises to get broadband to rural Americans

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HUNDREDS of cubicles; dozens of individual offices; 90,000 square feet of space. If it all smells a bit musty or seems a bit ghostly, well, that is what happens when you set up an office for occupancy in the mid-1990s and by late 2011 nobody has shown up for work. Over the past few years several call centres have taken a look: none has signed a contract. Gary Matthews, who runs the Tishomingo County Development Foundation, blames the lack of reliable broadband service: the office is several miles outside Iuka, tucked away in Mississippi's remote north-eastern corner.

In that, neither the unused office nor Tishomingo County is alone: the Federal Communications Commission (FCC) estimates that roughly 18m Americans in rural or remote areas lack access to reliable broadband networks. Distance, sparse populations, often rugged terrain and economies of scale make wiring costly for broadband providers.

These factors presented similar difficulties to providers of electricity and telephone services in the previous century. Then, the federal government established the Rural Electrification Administration and later the Rural Utilities Service to expand these services into America's hinterland. Now it is doing the same for broadband. On November 18th the FCC released details of an order directing $4.5 billion a year from universal-service and intercarrier-compensation systems—both legacies of landline telephony—into a new Connect America Fund (CAF), which it claims will give 7m rural Americans access to reliable high-speed internet connections over the next six years, generating 500,000 jobs and $50 billion in growth.

But previous experiments with rural-broadband subsidies suggest that these numbers should be viewed sceptically. As early as 2006 the Government Accountability Office worried that spotty data could undermine the effectiveness of rural-broadband subsidies. More recently, $7.2 billion in stimulus money went to rural broadband. A paper by Navigant Economics, a consultancy, then examined three stimulus-financed programmes. It found that they counted as "unserved" customers who in fact had access to wireless 3G networks, and hence spent a lot of money on customers who already had access to at least some form of broadband.

CAF promises to bridge this “rural-rural divide”, in which some have access to state-of-the-art broadband and others have nothing. It also says it can control costs with increased accountability and better targeted funding. Companies that take CAF money must provide high-speed connections reliable enough for internet telephony to one unserved location for each $775 in additional support (incremental costs under previous subsidy regimes ran as high as $350,000 per house, largely because of duplication). The new fund also promises to target support to truly unserved areas, rather than to places where unsubsidised competitors are already providing service, and it creates a “mobility fund” to build mobile voice and broadband networks.

So far, so promising, but the devil, as always, is in the detail—and many of the details are missing. Stuart Polikoff, vice-president of regulatory policy for OPASTCO, a trade group representing around 460 rural telecom companies, fears his clients will end up losing money when the FCC redirects intercarrier-compensation rates (fees one carrier pays to another on whose lines a portion of a call is carried). Dave Osborn, who heads the Valley Telephone Cooperative, which provides high-speed broadband to 4,600 people spread across 7,300 square miles of south Texas, predicts that change will deprive him of $1.5m a year. The large telecoms companies stand to gain: the FCC says they can reach 83% of the 18m Americans without service. Then there is the question of use: one survey found that nearly half of non-internet users in America saw no need for it. That is a problem that infrastructure alone cannot solve.

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