The High Speed Broadband Initiative – How to Fund it Most Efficiently

1 July 2010

The government wishes to increase high-speed ('super fast') broadband availability across the United Kingdom. Economics has demonstrated that the main factor in the real economy driving economic growth is technology. Investments in technology are therefore productive and enhance the potential growth rate. By allowing all households that wish to have a high-speed broadband to obtain such connectivity, overall productivity in the UK is likely to rise, raising the potential growth rate. The benefits of one incremental high speed broadband participant are magnified across the economy due to the nature of information-related technology. The Broadband Initiative is also of importance for reasons of equity and economic decentralisation, whereby remote regions would also be allowed to enjoy the benefits of connectivity.

An important obstacle in the implementation of UK-wide super fast broadband coverage is the cost factor. This is where the **Funding Alternative for Broadband (FA-B)** campaign comes in.

Funding Alternatives

Public sector expenditure can be funded from a variety of sources. The main sources of funding public expenditure are current revenues (mainly taxes) and public sector borrowing. Neither are attractive: taxes are already high and impose distortions on the economy. Public sector borrowing is inefficient, as it incurs a compounding interest burden. As David Cameron pointed out, almost 10% of all tax revenues are being spent on interest payments on public debt (and that's currently, during a low-interest rate period).[1] Treasury calculations show, as the PM explained, that by 2015 the annual bill for servicing Britain's national debt will reach £70bn. This sum is in excess of the combined budgets for schools, transport and climate change. "What a terrible, terrible waste of money…", said the Prime Minister.

There is, however, a funding alternative that does not incur interest costs or the need for tax funding. Governments have the right to issue money and in the past used to issue most of the money in the economy. But due to financial deregulation, today about 98% of the money supply is issued by profit-oriented firms, namely the commercial banks. Whenever they give credit, they add new money to the money supply. At the same time, the government is not making any more use of its sovereign right to create and allocate money.

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[1] Andrew Porter, Debt crisis means 10p in every pound will be needed to pay interest, warns David Cameron, *Daily Telegraph*, 8 June 2010; accessed at http://www.telegraph.co.uk/news/newstopics/politics/7809571/Debt-crisis-means-10p-in-every-pound-will-be-needed-to-pay-interest-warns-David-Cameron.html

Government Money

One principle in monetary economics is that money creation used for productive purposes is not inflationary. It is therefore possible to finance the Broadband Initiative with the creation of government money, without anyone incurring any costs or debts, and without any interest burden. From an economics perspective this is indeed the most efficient way to fund such productive government expenditure. There are also historical precedents, in the UK and other countries (the UK Treasury issued government money, as opposed to commercial bank or Bank of England money, from 1914 to 1927, and between the 12th Century and 1826; government money issuance was used to great effect by the German and Japanese governments in the late 19th century; the United States issued government money at various times). There are some leading economists who endorse the idea of government money issuance (e.g. Prof. Joseph Stiglitz, Columbia University[2]).

This is the gist of my proposal. I would be happy to spell out any technical details or principles and meet with interested parties to discuss this Funding Alternative for Broadband (FA-B).

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[2] *Reuters (*2003*)*. Weaker yen may help Japan deflation fight-Stiglitz*,* April 14*,* 2003