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Please don’t buy me a Betamax

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Public officials take note: Beware of chasing fads, lest you saddle your citizens with a BetaMax VCR.

Nearly two years ago, Saint Louis Park embarked on a project that ended up combining two fads—solar energy and municipal Wi-Fi. Solar panels would power the network, reducing ongoing electric costs and burnishing the city’s green credentials.

In April 2006, a pilot project was established to provide Wi-Fi service to 200 households, at a cost of $1,900 per household. This project was powered by conventional electric lines. In December 2006 the city entered into agreements with Arinc, Inc., and Unplugged Cities, LLC, to build and manage, respectively, a citywide wireless system.

By April 2007, the project was six weeks behind schedule. In December, the city advised the 4,000 residents who had pre-registered for the service to seek other options. The city concluded from its tests that many of the pole-mounted transmitters were too weakly powered to work.

Finally, late last month, the city council declared Arinic to be in default, and told city staff to find a way to get out of its contract. By this point, the city had spent $800,000 to $900,000 on the solar-powered system. One option to break the contract is to purchase the equipment from Arinic, which might cost up to $3 million—and still leave the city without a functional Wi-Fi system.

According to the Star-Tribune, the city’s chief information officer said “It sounded cool for a while. We'd be using cutting-edge technology in a cutting-edge suburb.”

Actually, it sounds like the city has been on the bleeding edge. So what went wrong?

We can start with the most obvious question: “Solar power in Minnesota?”

According to the folks at the National Oceanic and Atmospheric Administration (NOAA), the Twin Cities receive 58 percent of “annual possible sunshine” in a typical year. That’s a better record than Madison, Milwaukee or Fargo, but slightly worse than Bismarck, Rapid City, Sioux City or Des Moines, and far worse than Sun Belt cities.

Arinic suggested the scheme as a money-saving technique. But using public dollars for a first-in-the-nation application was not a smart move.

Material progress develops through innovation and risk-taking. Most forms of risk-taking are better played out in the private sector, where only shareholder equity is at risk. Now, city residents are left holding the bag.

The city still has broadband, though not necessarily the kind that some residents and officials would prefer. Incumbent landline and cable companies have an advantage, and would-be customers are free to establish broadband service on their own through them. With a little work (and perhaps a service call), they can create their own on-site Wi-Fi networks.

It's not as if city residents are so poor as to require a public subsidy. The city website boasts that in 1999 the median household income of residents was nearly $50,000, with 43 percent of residents having a college degree.

People who want on-the-go Internet access already have options. I assume that Verizon Wireless offers mobile broadband in the city. Perhaps the city ought to consider if its regulatory process is impeding the entry of other providers.

Are some of the options for wireless expensive? Yes there are—or at least more expensive than what the city was planning to charge. But as the experience of Saint Louis Park and other cities (notably Lebanon, Ohio) demonstrates, low monthly prices for municipal taxpayers will often be subsidized by taxpayers at large.

The desire to connect everyone to the Internet is understandable. Timothy Wu, a professor at Columbia Law School, recently suggested in an article published by Slate.com that "The basic idea of offering Internet access as a public service is sound." He argues that cities get into trouble when they think it won't take a substantial outlay of tax dollars.

Yet the idea of Internet connections to a public utility is precisely the wrong way of thinking. Cities have neither the financial or managerial expertise to properly fund and oversee something as dynamic, fas-changing, and capital intensive.

Jerry Ellig, a former official with the Federal Trade Commission, summarized the situation well in a report he wrote for the Reason Foundation (www.reason.org) in December 2006.

"Government," he said, "faces the daunting challenge of entering a market where technological change is swift, the future is uncertain, and competitors' actions are unpredictable—a playing field fundamentally different from the stable, predictable utility markets that have traditionally attracted public investment."

Aside from simplifying their regulatory processes, cities might do the most good by simply … doing nothing.

Large-area Wi-Fi is still a very new development. New technologies are expensive and uncertain, underwritten by early adopters. We’ve gone from $500 VCRs to $50 DVD players at Wal-Mart.

In such a changing environment, cities would do well to not get ahead of the private market, lest they burden taxpayers with the equivalent of a very expensive VCR—in Betamax.