

What are utility networks doing in the category of natural resources?

CHAPTER 22

MANMADE UTILITIES SPOUT NATURAL RENT

“I’m not denying that monopolies are terrible things. But it is easy to resolve them.”

– Alan Greenspan, once the world’s most powerful banker

UTILITIES GENERATE RENT, TOO

Over recent decades, inventors have made parts of nature exceedingly valuable, including an invisible part, the electromagnetic spectrum for telecommunication. This ever-advancing technology also makes valuable, along with airwaves, the tangible, human-made cable networks for carrying digitized information. Just as you pay for the rest of useful nature – typically paying rent (technical meaning) for the land beneath your home – you also pay rent for EM frequencies and for cables, strung on roadside poles or buried underground out of sight.

Of course, you don’t pay directly, just as you don’t directly pay for farmland when you shop at the grocery store. But what you do pay does get passed along. And what you and the rest of us pay in order to telecommunicate, that gets added to the subtotal of what we all pay for the more familiar land. Thereby we get closer to determining how much is the total worth of Earth in America.

While nobody made the EM frequencies, and somebody made the cables, that difference is overshadowed by three similarities.

- First, both are locations – frequencies in the spectrum, cables along the streets.
- Second, both allow monopolies – telecomm corporations and utilities tend to giantism, controlling huge amounts of territory, just like those guys who own millions of acres.
- Third, for those two reasons, whoever owns or controls cable networks or frequencies can charge well above cost – that is, both can charge (technical) rent.

UTILITIES AS NATURAL

Consider the first point – location. Although human effort is necessary to build utilities, labor is far from sufficient. Just like in real estate, the three most important things in utilities are/is location, location, location in nature: dams need river valleys, railroads need gradual grades, windmills and cell towers need hilltops, satellites need geosynchronous orbits, etc., as cables need rights of way. Otherwise, none of these goods can serve.

Now, the second point – monopoly ownership. Electro-magnetic communication is the latest “natural monopoly.” Earlier came the power grid and before that water and sewers. Older still were the railroads, the big bad corporations of their day. The first natural monopoly were streets (below which are the routes for water and sewer). Imagine if different networks in the same region were to compete: parallel streets for cars, parallel cables for communications, parallel sewers for crap – not too efficient. In such cases, monopolies make more sense and are dubbed “natural.”

The granddaddy of them all – roads – was almost never owned by a single person. The exceptions were someone owning a bridge or ferry. Or a toll road, which was legal; the illegal variant was highway robbery.

Ownership of today’s utilities, water, electricity, etc., has been mixed. Sometimes the public owns, sometimes a private party. The latter, the profit-making utilities, show that these networks generate income – lots of it.

Now, consider the third point, rent. As monopolies, utilities lack competition (duh). Not challenged by someone willing to accept a slimmer profit, whoever owns the utility monopoly is in a position to charge customers a steeper price, one well above cost. *It’s something private ones tend to do while public ones don’t.*

“Out of sight, out of mind.” The airwaves are intangible. And the networks of cables and pipes, though tangible, might as well not be. (For the sake of esthetics, if only telephone wires were buried everywhere as in cities.) Most people overlook these monopolies.

The only people paying close attention are the investors and speculators who want something for nothing, or, to be fair, a lot for very little. Being so remunerative, utilities appear as low-hanging fruit. Once plucked, the massive cash flow makes utilities into major political players.

ENCLOSURES OF COMMON REVENUE

Not only can utilities force prices up, they can also force costs down. Of course, location has no cost of production (since nobody pro-

duced it and nature never charges rent). But beyond that, since money means power, once utilities have enriched themselves – grossing over \$400 billion in 2017 – they pretty much have the public’s servant (government) serving them.

Elected officials are supposed to be our faithful stewards, but often aren’t.

- Utilities get to use public space (beneath streets) or common space (geosynchronous orbits) without paying the public much. Even better from a corporate standpoint, TV broadcast companies were able to win license to their channels without paying the Federal Communications Commission a penny.
- The state does not excel at keeping prices down. Public Utility Commissions routinely rubber-stamp every request from privately-owned electric utilities to raise rates. People who live in areas served by publicly-owned utilities pay much less.
- In Oregon, the major utility did not hand over to the state the taxes it collected. Rather than get fined or go to jail, management contributed to campaigns. The legislature passed another law requiring the utility to obey the first law. They ignored the second one, too.

Government fails to recover full market value for the fortune-making sites that utilities need. What kind of stewardship is that? Not exactly faithful (to the public welfare, that is).

The trend may be getting even less favorable to the public. Some localities are selling their water systems to private corporations. Water is right up there with oxygen as a life-or-death necessity. When you look at how many hundreds of times greater than cost that pharmaceutical companies charge for life-saving drugs, *one must wonder to what level will the price for water escalate?*

To avoid paying the public, businesses, naturally, prefer to turn public space and common space into their own private property (not that anyone needs privacy beneath a street or in orbit). Getting a never-expiring lease for some EM spectrum, which used to be entirely public property, for free, as TV networks get, was not good enough. Now, insiders and major corporations get to own frequencies, and the FCC lets these valuable gifts of nature go at well below market value.¹ Virtually, it’s money for nothing.

The cloak of private property is perfect for claiming to not owe the public anything. Looking into the issue of the worth of rights-of-way, you

1 “The Failure of FCC Spectrum Auctions” by Gregory F. Rose & Mark Lloyd for *American Progress*, May 2006

find them referred to as the private assets of private corporations, belonging to them and them alone. Want to make something of it?

Anyone who uses a public or common space as their own will come to feel like it belongs to them. Restauranters who set tables and chairs on the public sidewalk feel like our public right-of-way belongs to them. Homeowners who park their car on the sidewalk feel the same. Whether encroachment by the less powerful among us or enclosure by the more powerful, it's not an unusual human behavior.

Even if commonplace, there's still the matter of scale. The homeowner and cafe owner might profit somewhat by encroaching, while the enclosing utility corporation will gain big-time. Getting free use of a location beneath a street or in the EM spectrum or in outer space does save the corporation immense sums. Those savings, you may have noticed, do not routinely get passed on to customers as lower prices.

Ironically, the issue of corporate ownership is irrelevant. Well, that is, if we set aside the power of money for a moment. In a practical sense, in order to draw revenue from natural monopolies, not only can government lease nature the public owns at full market value. It can also levy land and resources and spectrum that private parties own at their full, annual, monopoly rental values. Or try to. Utilities have been pretty good at not only dodging taxes but getting back refunds far bigger than any taxes they pay.

WORTH OF QUASI-LAND MONOPOLIES

Utilities, like landlords, land speculators, and mortgage lenders, enjoy being members of the tiny club of big rentiers. It's to their advantage that the majority are unaware of rent. It's to their benefit that conventional economists don't study it, that mainstream statisticians don't count it. Yet fortunately for us, somebody does, and their figures let us measure more of that stream of spending for natural goods and natural monopolies.

Were prevailing political winds to blow that way, and were government to charge utilities full-market value for the monopoly franchise it grants the company, how much revenue could the government raise? Consider the electric companies that deliver the juice. At a minimum, government could recover the difference between the profit of public and private utilities, about \$33 billion annually.

That still leaves the value of the locations that utilities use. *In 2015, utilities (except for the ones the Census Bureau left out) paid local and state governments \$167 billion, presumably more now in 2019.* Given the able resistance of the utility lobby to paying the public anything, those billions

are likely to be well under the actual annual rental value of utility franchises and utility spaces. Closer to a fifth of a trillion is more realistic. It'd push our previous total (Ch 20) to \$4.6 trillion (but not budge Fred Foldvary's \$6t since it's a third of whatever GDP or National Income is that year). How much is that? Per capita, now the share would climb to over \$2k per month for every registered voter.

MONOPOLIES FIGHT PROGRESS

While even 167 hundreds of billions are real money, how long will they stay real? Might techno-progress shrivel the value of a utility franchise? Or, exacerbate it? What will the advance of technology do to monopoly?

Could techno-progress make it possible to provide service without having to have a monopoly, letting in competition, and driving down price? It happened with telephones. If every home had its own power plant – say solar panels, as now it might have its own little garden – there'd be no need for electrical utilities. Already, a growing number of households are going off the grid. Not just “green” hippies but conventional companies, too, have turned to producing their own power.

It's a scenario not likely to warm the hearts of monopolists. And if we can foresee it, so can they. What steps are they taking? To date they've fought tooth and nail to maintain their advantage. Back when Edison and Tesla were competing to see whose electricity would dominate, the one that traveled long distances without losing lots of juice defeated the one more efficient at short distances. Yet today if DC were dominant, much energy and money could be saved. Some day, perhaps.

That was not the only battle. Look at the intersection of politics and technology throughout history. RCA, which founded NBC (and was granted part of the broadcast spectrum for free), kept television from the American public for 20 years, until the patents of the actual inventor expired, so to avoid paying him his just reward.

Corporate interference in the progress of technology is not a relic of the past. Just recently, utilities are making a push to revive nuclear power, which would keep consumers hooked to the power grid. And they're trying to keep solar from eating into their market share.

The only standing that corporate utilities have is a legal one, the government-granted title. They don't have moral tradition. Indeed, just as General cum President Eisenhower warned us about the military/industrial complex, so did Thomas Jefferson warn us about bankers and corpo-

rations. Utilities are just lucky that the tradition of the commons has faded enough to have become invisible to most modern humans. Otherwise, customers might demand an accounting – and probably lower prices, too.

Even if someday those utility monopoly rents do go away, right now today we have more sources of rents to find and measure. What else is natural and valuable, not just health-wise but also economically? Answer: all nature that's not owned but shared – in a word, the environment.