

Government Competition with the Private Sector? A Risky Choice

In November, voters in twenty-six communities across the State of Iowa will be faced with an important decision regarding their telecommunications options. Many of these communities are seeking the authority to create a municipally-owned communications utility. These referenda are first steps towards the authorization and creation of government competition with the private sector. It is not in the best interests of either government or the people of Iowa for local government to compete with taxpaying businesses in providing goods and services.

Taxpayers take note: losing a taxpaying business such as a telecommunications company means a reduction in the local tax base. Where will those lost tax dollars be recouped? Not from your government-owned business, but from the taxpayers remaining in your community. Granted, the thread of hope for decreased costs, increased revenues, or an expansion of services is tempting, but the threat to private, taxpaying enterprises is such that in the long run, the welfare of Iowans could be adversely affected.

As a possible result of such a situation, a business fails, employees lose jobs, and the social contributions of both, including payment of both corporate and individual taxes and purchasing power, are diminished. Taxpayers are harmed when a taxable economic activity is taken over by government. This type of action diminishes the tax base, leaving a revenue gap that, over time, increases the pressures for higher taxes. Not to mention that taxpayers now become liable for large capital expenditures and expensive taxpayer-financed subsidies.

The costs associated with building, maintaining, and upgrading communications systems present considerable financial risks to your community. The use of short- and long-term bonds to pay for the project is a high risk to the community and to the local taxpayers. If the project fails to attract the necessary revenue and the city defaults on the bonds, the taxpayers are the ones caught with the burden of repayment. And don't forget that when new government agencies enter the competitive business field, other government agencies, such as the school districts, lose property taxes that would have been generated from the private utility.

As you evaluate whether to take this "first step" next month, be very careful of the pitfalls on the trail ahead of you. Be mindful of the serious risks and consequences involved when committing your community to the establishment of a utility owned and operated by the government.

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