

Pre-IB Economics – Commentary Cover Page

CIE 3M7

Victoria Park Collegiate Institute

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Ontario to put \$1 billion into broadband

Just before the Ontario government is about to release its three-year budget plan, Premier Doug Ford has announced almost \$1 billion to improve broadband and connectivity across Northern and rural areas.

Elaine Della-Mattia

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The Ontario government is earmarking nearly \$1 billion to expand broadband and cellular access across the province. The expenditure will be made over a six year period. It's a massive spend by the province announced a day ahead of the release of Ontario's 2020 budget.

"By providing high-speed broadband to unserved and underserved communities like Minden Hills, we will create good jobs, unlock new opportunities for businesses and people, and improve the quality of life for individuals and families," said Premier Doug Ford. "With the world online these days, if we are going to attract more investment to Ontario and compete in this highly competitive global marketplace, we need every part of our province connected with high-speed Internet."

The province announced Wednesday an additional \$680 million will be earmarked, on top of a previous \$315 million to support Ontario's Broadband and Cellular Action Plan. The funding is to be used for shovel-ready projects which will create jobs, connect unserved and underserved communities during COVID-19 and beyond.

He said making broadband available across Ontario has been his personal mission since before he was elected.

The provincial announcement doubles funding for the Improving Connectivity in Ontario (ICON) program, bringing the new total to \$300 million. This program now has the potential to leverage more than \$900 million in total partner funding to improve connectivity in areas of need across Ontario. As part of Ontario's broadband and cellular action plan, ICON is one of several provincial programs underway to improve connectivity across Northern, eastern and southwestern Ontario.

Northern and rural communities have been urging the government to support broadband and cellular service and the need has never been more prevalent until COVID-19 forced people to work from home and students to learn from home. Shortages of connectivity and reliable service have impacted work and learning in underserved areas.

Canadian Radio-television and Telecommunications Commission data suggests that 1.4 million people – or 12 per cent — in Ontario do not have broadband or cellular access and as many as 12 per cent of households in Ontario, mostly in rural, remote or Northern areas don't have service.

The province is hoping that the federal government will step up with its Universal Broadband Plan and provide additional funding to help Ontario communities receive proper broadband service.

An Assessment on the Impacts of the Ontario Government's Connectivity Investment Plan

Recently, the government of Ontario announced its plan to invest nearly \$1 billion over the next 6 years to “improve and expand broadband internet and cellular access across the province.” Through this investment, the government hopes to create a more equitable system that supports communities with limited or no internet access.

Equity is the economic concept that centers around creating a fairer system wherein different groups can benefit from shared opportunity, wealth, and income distribution as much as possible.

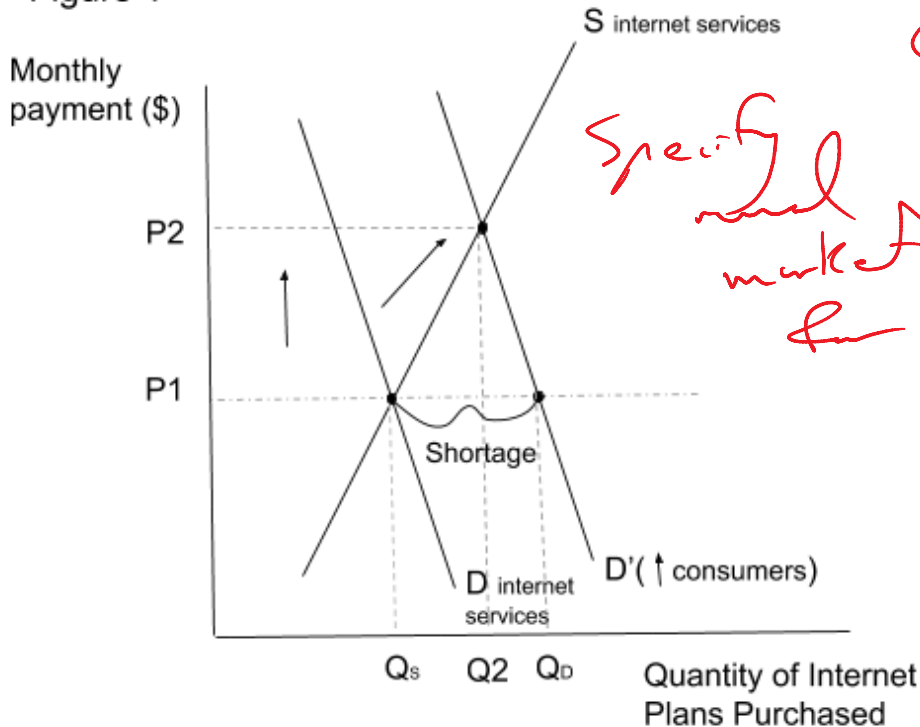
↳ refer to rural vs. urban areas

Currently, due to poor infrastructure, the supply of internet services is highly restricted for rural consumers compared to urban counterparts. Furthermore, there are “shortages of connectivity and reliable internet” in the market because the quantity of internet services demanded exceeds the quantity supplied at the current market price given the poor infrastructure.

In addition, the COVID-19 pandemic has “forced people to work ... and ... learn from home,” meaning more consumers require internet access, leading to an increase in the demand for internet services. As illustrated in Figure 1, an increase in demand would lead to an increase in both the equilibrium payment rate and the equilibrium quantity of internet plans purchased, making internet services even less affordable for rural consumers.

→ esp. since lack of investment in infrastructure (supply)

Figure 1

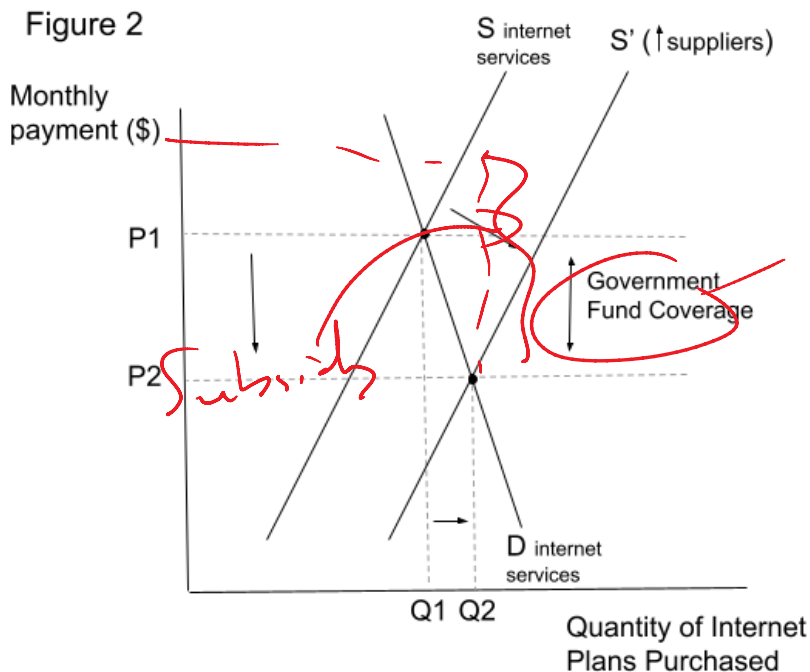


Specify rural market for internet services

Because internet connection is almost a necessity in a developed country like Canada, with little to no substitutes, internet services have highly **inelastic demand**, meaning that quantity demanded is less sensitive to a change in price. Also, as internet services in Canada are only provided by a few major companies, and even fewer in rural areas, the number of internet suppliers in the market is low and the short-term supply curve is highly inelastic as well. As a result of the high inelasticity of both curves, suppliers of internet services can set high and unaffordable equilibrium prices for consumers, some of whom are able to buy the quantity supplied at P_1 in Figure 1, while others remain unserved. *→ hence, inequality.*

To address the disparity between rural and urban internet access, the Ontario government has decided to fund province-wide infrastructure projects to increase internet supply. This decision ties into how governments sometimes must intervene to create equity in the market, as “northern and rural communities have been urging the government to support broadband.” In effect, the funding would act as a **subsidy** - a form of financial aid extended to firms or individuals by the government. Since the government covers the costs of providing adequate infrastructure to supply internet services, *more suppliers may enter this market in rural Ontario, leading to an increase in supply.*

When supply for internet services increases, supply shifts from S to S' as the equilibrium price drops from P_1 to P_2 and equilibrium quantity increases from Q_1 to Q_2 , as illustrated in Figure 2. Since consumers' purchasing power increases as price falls, and internet accessibility improves as quantity increases, the market shortage will be remedied. In effect, the nearly \$1 billion in broadband funding across Ontario may develop enough infrastructure for rural internet prices to drop nearer to the level of urban counterparts.



Additionally, increased accessibility of rural internet services will have a positive impact on rural communities by creating more job opportunities. With internet accessibility, more jobs involving the internet, such as technical support, will become available. In the long-run, the many resources offered by the internet can also enhance worker training and the rural education system. With more job creation in rural areas and increased resource access, communities can come closer to enjoying living standards similar to urban-dwellers.

Equity + well-being

However, the provincial government's decision to fund internet access comes with an opportunity cost. Using the \$1 billion invested in improving long-term internet access, the government effectively loses the opportunity to fund other programs. Since the funds provided by the provincial government come from the money of taxpayers, many may become unsatisfied, deeming their money better reserved for short-term purposes such as improved healthcare and education facilities in light of COVID-19. Increased taxation to support the \$1 billion fund may also ensue in the long-run.

be needed

Nonetheless, as the disparity between urban and rural consumers continues to increase amid the COVID-19 pandemic, the government made the correct decision to focus on creating equity for rural dwellers by funding internet ^{service} supply. Currently, 1.4 million people in Ontario lack broadband access, particularly in rural and northern regions. COVID-19 has left rural communities devastated, as lockdown orders have increasingly forced households and businesses to continue activities on the internet. This means that connectivity is essential and inaccessibility could result in severe implications for underserved communities. Overall, although stakeholders such as urban taxpayers may be dissatisfied in the short-term, funding rural broadband is key to making Ontario more equitable in the long-run.

Perhaps → intervention to aid poor vs. big cap. (i.e. Bell --) could be illustrated.