



Insight

# Corporations Aren't the Problem with Broadband Access

WILL RINEHART | SEPTEMBER 3, 2019

In *The Washington Post*, presidential hopeful Senator Elizabeth Warren points to failures of the private market as the reason why certain areas lack access to high-speed Internet: “Blame Internet service providers (ISPs), such as Verizon, Comcast, AT&T and Charter, which have maximized their profits at the expense of rural towns, cities, low-income communities and communities of color across the country.” Warren contends that a federal grant program doling money to local governments and non-profit groups would be better than our private market system.

Senator Warren’s argument, however, ignores several facts:

- Return on invested capital is a far better metric for measuring the income of network businesses than simple profitability;
- The United States ranks in the middle of the pack for expanding Internet access to rural areas when compared to European and other developed countries; and
- Corporations are often at the vanguard of Internet deployment, while local governments have been reluctant to compete directly with private ISPs and deploy broadband Internet themselves.

Simplistically scapegoating the profit motive of ISPs ignores the cost realities and market forces driving Internet deployment. The United States is a large and decentralized country, and as a result expanding high-speed Internet is difficult and expensive. Before blaming private companies for limited access, policymakers would do well to understand both the challenges facing expansion efforts and the successes that the United States has already had in this area.

## *Metrics for Measuring Corporations*

Warren attacks both the profitability and customer service of private ISPs, but neither is a helpful metric for measuring the success of these corporations. Most important, understanding the financial position of a firm requires more than just trotting out gross profit numbers. Modern financial textbooks spend little time on the subject because profitability doesn’t say much about how a company makes a return on its investment. Verizon, Comcast, AT&T, and Charter are all network companies dominated by high initial costs and low marginal costs. That is, they all spend a lot of money to build or upgrade a network over a short time span and then pay down that investment over time. Looking at annual profit numbers paints a distorted picture.

Analysts will look at a company's return on invested capital (ROIC) ratio [since](#) "it gives the clearest picture of exactly how efficiently a company is using its capital, and whether or not its competitive positioning allows it to generate solid returns from that capital." For 2018, [Comcast](#) had a ROIC of 9.15, while [Verizon](#) had 11.89 percent. On the other hand, [Facebook](#) had an ROIC of 26.85 percent while [Microsoft](#) got a ROIC of 24.13 percent in 2018. Broadband companies might be doing better than other industries, but the companies are hardly the profit maximizers Warren has called out.

Warren similarly highlights the poor customer service from private ISPs, but her critique here is likewise off base. Warren is certainly correct that "Horror stories starring giant Internet companies are practically universal," but these horror stories aren't unique to the United States. They also happen in [Germany](#), [Italy](#), [Spain](#), and [the United Kingdom](#). Worldwide, few people like their Internet provider. Private American companies aren't the problem here.

### *International Rankings*

Every country struggles with getting broadband into hard-to-reach places, yet Warren still chides policymakers because the United States doesn't have the same speed and access as Europe. [The Federal Communications Commission \(FCC\) report she cites](#) undermines her argument that the United States is an outlier, however. The report explains that "the United States had higher deployment rates than the EU21 countries as a whole during the period both generally and separately in rural and non-rural areas." Further, while the United States does come in tenth place for average download speed among developed countries, it is dense countries such as Denmark, Japan, and South Korea—where it is much easier to deploy fast Internet broadly—that rank higher.

Getting broadband into rural areas is a difficult task regardless of the country, and other countries are struggling just like the United States is. Former Norwegian Minister for Transport and Communication Ketil Solvik-Olsen [faced criticism](#) for his government's inability to get rural coverage in northern Norway. Despite besting the United States in the rankings, Denmark too struggles with [getting broadband in the countryside](#). And while the German government has spent serious money in a project similar to Warren's, [experts have warned](#) that there is "no way" Germany could get all its citizens connected via fibre or terrestrial mobile."

### *A New Shining Path?*

Warren's solution for expanding broadband is the creation of a new Office of Broadband Access that would be given \$85 billion to dole out. But there's a catch: "Only electricity and telephone cooperatives, nonprofit organizations, tribes, cities, counties and other state subdivisions would be eligible for grants." Not only would the largest players be kept from this pool of funding, but small independent companies would be barred from getting assistance as well.

Warren seems bent on ridding the industry of a profit motive, but giving money to nonprofits of one sort or another will not change the fundamental dynamics at play in Internet deployment. Be it a profitable enterprise or nonprofit entity, every investment has to be able to pay its bills. Warren might see cities as the great solution, but [as AAF explained](#) two years ago,

Contrary to what some idealists imagine the world to look like, municipalities still need to make regular payments on their debt and equity, and face all of the similar challenges as a private network provider...

Many cities aren't tackling broadband projects for understandable reasons. Financing is difficult and the

bond market isn't changing for the better. Creating a consumer-facing service is a risky business with significant pitfalls. And to top it off, communication taxes are an important source of revenue, which no one in government wants to neuter. State laws have become a locus of conversation, but their importance in this discussion is overrated. Far more important are market fundamentals. Local governments face tough decisions when making a new network a reality.

Further, in some areas, for-profit corporations are the ones expanding broadband Internet. In North Dakota, for example, rural cooperatives have been working with independent firms to get fiber in hard to reach areas. And it is not as though only a few companies would gobble up all the money. According to FCC data, there are over 2700 ISPs in the United States. If Congress were to agree to \$85 billion in new spending, it seems nearsighted to deny funding to thousands of ISPs because of their corporate structure.

There is an important role for both profit and nonprofit institutions to help get broadband everywhere—a fact that needs to be acknowledged. But the distinction between enterprises and nonprofit institutions masks the real problem: Broadband deployment is tough in rural areas where people are sparse. Criticizing the biggest companies without recognizing the fundamental market dynamics does little to solve the problem.