



Research

Title II Reclassification Negatively Impacts Jobs and Investment

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Recently, the administration advocated that the Federal Communication Commission reclassify broadband as a utility under Title II in order to achieve “network neutrality.” Network neutrality is the idea that Internet Service Providers should not slow down, speed up, or block data as it is routed from its content originator to end users. The problems with reclassifying broadband to Title II are numerous, including the requirement that the FCC set prices paid by content companies to have their traffic carried to users and the severe regulatory uncertainty of this unprecedented move. Here is another to add to the list: Title II could put as many as 174,000 broadband related jobs at risk by the end of this decade.

A recent paper by Kevin Hassett and Robert Shapiro entitled “[The Impact of Title II Regulation of Internet Providers On Their Capital Investments](#),” projects that Title II reclassification could reduce total investments by cable companies, traditional telephone operators and other wireline Internet providers from \$218.8 billion to \$173.4 billion over the next five years, for a maximum reduction of 20.8 percent. In the final year of 2019, where the difference is the largest, the baseline projection of investment without Title II is estimated to be \$48.5 billion. If Title II reclassification is applied, this total could be reduced by \$11.8 billion.[1]

Lower investment in the wireline broadband sector as a result of Title II reclassification is likely to result in fewer jobs created in the industry. The relationship between investment and jobs is summarized by “multipliers” – a tool commonly used by economists to estimate the impact of investment projects. The most widely accepted such model is the Regional Input-Output Modeling System (RIMS II) that the Bureau of Economic Analysis (BEA) began in the 1970s. Comprehensive data collection in a number of industries and regions since then has improved the model, and it is now widely accepted by investors, planners, and elected officials to objectively assess the potential economic impacts of various projects. As the BEA notes, “Regional I-O multipliers are based on a detailed set of industry accounts that measure the goods and services produced by each industry and the use of these goods and services by industries and final users.”

Using data provided by the BEA, a team of economists estimated that a million dollars invested into wired broadband yields 14.74 jobs.[2] Even though there is a debate on time horizon for the increase in employment, the BEA considers one year to be appropriate. Translating the \$11.8 billion investment decline using the employment multiplier thus yields a total of 174,233 fewer jobs created in 2019. Since the US has an extremely dynamic labor market and due to the very nature of multipliers, investment could shift toward other industries, so this number applies only to broadband employment. However, the forgone investment would also come at the expense of highly technical careers, which would ultimately limit positive spillovers like new companies in these evolving markets.

Some have claimed that regulatory changes like Title II reclassification are costless, but much of the research proves otherwise.[3] Broadband is among the most capital intensive industries in the United States. The country’s top three broadband providers continue to be among its top ten largest investors in the US with a combined total of \$22 billion in capital expenditures for 2013.[4]

The current regulatory regime has served consumers well, which is ultimately reflected in the difference between the US and the EU. Between 2007 and 2012, US broadband investment per household was about double that of the EU.^[5] Even though the US is among the least dense countries in the world, a significantly higher percentage of households in the US in both rural and urban areas can access superfast broadband as compared to the EU. Not surprisingly, the US has nearly double the amount of user data consumption as compared to the EU. One of the prime contributors to the difference is that most EU countries follow an approach that is akin to Title II.

Investment is the fuel driving the Internet economy. Changes in the regulatory regime like Title II would have especially large reverberations and would surely impose significant costs on consumers.

^[1] From Hassett's calculations, the 2019 Base is \$48.5 billion with the First Specification yielding \$38.9 billion under an unweighted Title II model while the subscriber weighted estimation comes out to be \$36.7 billion; the Second Specification comes out to \$37.3 billion under a non-weighted Title II estimation with the subscriber weighted total at \$40.5 billion.