



Internet Regulations Will Cost Jobs

Latest Study Consistent with Findings Showing Internet Regulations as a Detriment to Consumers, Broadband Investment and the Economy

Jobs, Jobs, Jobs

At the State of Union Address, President Obama identified jobs as the “number one focus” for the year – and no wonder. While the unemployment rate dipped from December to January from 10.0% to 9.7%, the rate is still twice as high as it was just two years ago and, since that time, nonfarm employment has fallen by 8.4 million jobs.

At the same time that the Administration considers jobs legislation and a second stimulus, the Federal Communications Commission (FCC) is considering the imposition of Internet regulations (so called “net Neutrality” regulations) on “core” or broadband network companies, regulations that numerous studies show would reduce investment, consumer welfare and economic growth.¹ Proponents of regulation assert, without much supporting data and analysis, that these regulations would produce offsetting benefits at the “edge” of the networks, particularly applications companies, like Google, eBay and Amazon.

A Study on Broadband Employment

A recent American Consumer Institute study, “The Internet Ecosystem: Employment Impacts of National Broadband Policies,” authored by Larry Darby, Joseph Fuhr and Steve Pociask shows that network companies create twice as many jobs and invest twice as much, dollar for dollar, compared to non-network (edge) IT companies.² Specifically, historical data suggest that for every \$1 billion in revenue, “core” network companies provided 2,329 jobs, while non-network “edge” companies provided 1,199 jobs (about half as many). While networks create more jobs and investment relative to

cash flows, edge companies make significantly more profits. In terms of size, as the table below shows, Google is larger in terms of market capitalization, but it invests much less and creates significantly fewer jobs than network companies.³ It is also worth emphasizing that jobs at the “edge” depend on investment in “core” networks.

**Employment, Investment and Market Capitalizations for
Leading Firms in the Internet Ecosystem**

Company	Market Cap - \$B	Jobs	Cap Ex \$B
Google	185	19,800	2.35
AT&T	151	288,600	19.67
Verizon	87	235,300	17.24
Comcast	46	100,000	6.28
Time Warner Cable	16	45,100	3.52

ACI study; financial data downloaded on January 21, 2010.

The evidence is clear – stimulating network investment is a better way to create jobs. In fact, a new report by the Democratic Leadership Council (DLC) pinpoints lagging investment for a decade-long decline in job creation. The DLC observes that the job creation problem pre-dates the recession and says that “to promote a sustainable recovery and to create jobs we need to create an economic climate for business to invest and innovate again.”⁴ The net neutrality regulations moving forward at the FCC would do just the opposite.

Broadband Policy Implications

Numerous studies have shown that Internet regulations, as proposed, would dramatically increase market risk, lower expected growth, suppress network investment and raise consumer prices.⁵ This ACI study demonstrates that these regulations threaten job creation by shifting opportunities, incentives, and earnings prospects from the core providers who generate the largest number of jobs and the most investment. On balance - - taking into account their net impact – the regulations are likely to destroy more investment and jobs in the core than they will create at the edge.

Based on the ACI study, which showed that “core” companies earn at lower rates, invest more and create more jobs per dollar than do “edge”

companies, regulations that shift value away from network providers to non-network providers reduce investment in network infrastructure. Therefore, these regulations conflict with consensus requirements of a National Broadband Policy and with our macroeconomic policy goals, and they refute regulation proponents' claims of offsetting benefits from net neutrality.⁶ Simply put, Internet regulations will cost America jobs.

Summary

The study's results raise concerns that the imposition of Internet regulations by the FCC would almost certainly work at cross-purposes with the imperative to create and save jobs. Regulations that favor edge vs. core IT companies will lead to less investment and employment. This is being considered at a time when the economy suffers from high unemployment and when Congress has asked the FCC to develop a plan to encourage broadband deployment as a means, in part, of creating good jobs.

¹ Many of these studies are cited in "The Consequences of Net Neutrality on Broadband Investment and Consumer Welfare: A Collection of Essays," The American Consumer Institute, November 19, 2009.

² See <http://www.theamericanconsumer.org/wp-content/uploads/2010/01/aci-jobs-study-final1.pdf>.

³ A separate study by Entropy Economics found that companies that are "skeptical" about net neutrality regulation support ten times as many jobs as those who support new regulation." See Brett Swanson, "What Would Net Neutrality Mean for U.S. Jobs?" Entropy Economics, February 5, 2010, available at <http://entropyeconomics.com/wp-content/uploads/2010/02/what-would-net-neutrality-mean-for-jobs-020510.pdf>.

⁴ See Jessica Milano, "Where Jobs Come From: The Role of Innovation, Investment, and Infrastructure in Economic and Job Growth, The New Democratic Leadership Council, February 2010, available at <http://www.dlc.org/documents/WhereJobsComeFrom.pdf>.

⁵ For example, see footnote 1.

⁶ The FCC's National Broadband Notice of Inquiry speaks to their obligation to consider jobs, as directed by the Recovery Act requirement that the Commission include "a plan for the use of broadband infrastructure and services in advancing ... job creation and economic growth." Recovery Act § 6001(k)(2)(D). In the Matter of A National Broadband Plan for Our Future, GN Docket No. 09-51, Notice of Inquiry at page 34.