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Press Release

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NEW PHOENIX CENTER STUDY PROVIDES STATISTICAL ANALYSIS OF EFFECT OF TITLE II ON BROADBAND INVESTMENT

Phoenix Center Finds that "But For" Title II Reclassification, Broadband Service Providers Would Have Made Another $150-$200 Billion in Additional Network Investment Over Five-Year Period

WASHINGTON, D.C. – Ever since the Federal Communications Commission reclassified broadband as a "common carrier" telecommunications service under Title II of the Communications Act of 1934, both sides of the debate have focused on capital expenditures as a bellwether of the regulation's effect on investment. However, whether capital expenditures rise or fall says nothing about the effect of a specific regulatory intervention. Capital expenditures are determined by many factors, of which regulation is only one. Instead, to determine the effect of a specific regulation on investment correctly, a "counterfactual" is required: that is, how much investment would have occurred "but for" the regulatory intervention?

In a new POLICY PERSPECTIVE released today entitled *Net Neutrality, Reclassification and Investment: A Counterfactual Analysis*, Phoenix Center Chief Economist Dr. George S. Ford attempts to fill this gap in the debate by conducting a counterfactual empirical analysis of the effects of Net Neutrality and reclassification on investment in fixed assets. Applying the difference-in-differences method to a broad measure of investment (thus accounting for the FCC's "virtuous circle" effects), Dr. Ford estimates the investment effects in telecommunications following the introduction of Title II reclassification to the Net Neutrality debate.

Using standard econometric methods, Dr. Ford finds sizable investment effects from reclassification. Between 2011 and 2015 (the last year data are available), telecommunications investment differed from expectations by between 20% and 30%, or about $30 to $40 billion annually. Actual investment averaged $126 billion annually, a sizable expenditure, but the counterfactual analysis indicates the average investment over the five-year window would have been about $160 billion (or more) annually. That is, over the interval 2011 to 2015, another $150-$200 billion in additional investment would have been made "but for" Title II reclassification. Notably, Dr. Ford finds no decline in investment following the release of the FCC's "Four Principles" to promote an Open Internet in 2005, suggesting it is reclassification—and not Net Neutrality principles—that is reducing investment.

"It appears that Chairman Ajit Pai intends to reformulate Net Neutrality policy, reversing the reclassification of broadband services as a Title II service and returning to a principles-based approach," said study author and Phoenix Center Chief Economist Dr. George S. Ford. "My econometric results indicate that the policy choice is a prudent one, especially if the encouragement of investment is an important policy goal."

A full copy of PHOENIX CENTER POLICY PERSPECTIVE NO. 17-02, *Net Neutrality, Reclassification and Investment: A Counterfactual Analysis,* may be downloaded free from the Phoenix Center's web page at: http://www.phoenix-center.org/perspectives/Perspective17-02Final.pdf.

The Phoenix Center is a non-profit 501(c)(3) organization that studies broad public-policy issues related to governance, social and economic conditions, with a particular emphasis on the law and economics of the digital age.