



Insight

The American Jobs Plan Is the Wrong Solution to the Digital Divide

JENNIFER HUDDLESTON, JUAN LONDOÑO | APRIL 13, 2021

Executive Summary

- The Biden Administration’s American Jobs Plan (AJP) includes a proposed \$100 billion investment to ensure every American has access to high-speed internet.
- The AJP emphasizes municipal broadband, implies a movement toward price controls, and is marked by one-size-fits-all solutions, all of which could deter investment in infrastructure, drive out competition, and ultimately harm consumers.
- To truly “future proof” our internet infrastructure and expand access to high-speed internet, policymakers should also continue the light-touch regulatory approach that embraces private-sector leadership and emerging technologies such as satellite internet and 5G in addition to traditional broadband.

Introduction

The Biden Administration’s recently announced \$2.25 trillion American Jobs Plan (AJP) proposes \$100 billion to expand broadband to ensure every American has access to high-speed internet. Improving connectivity and reaching those currently without internet access, a problem commonly known as the “digital divide,” has become a priority for policymakers on both sides of the aisle. While the AJP leaves many details unaddressed, it does focus on encouraging government-run broadband networks and applies a definition of broadband using higher speeds for both uploads and download than is typical.

While expanding internet access and improving the quality of connectivity are laudable goals, the AJP pursues them in a costly and heavy-handed way. This new plan would have government direct deployment and pricing, diminishing market incentives for investment and innovation—a marked shift from the current policy focusing on private-sector leadership in deployment and on targeted incentives for areas and individuals without service. President Biden’s comments around the plan also suggest a potential move toward price controls on internet service. Instead of engaging in these costly top-down programs with unproven success, policymakers should seek to work with the private sector and encourage further innovative solutions to improve access to high-quality, high-speed internet and encourage internet adoption.

The Pitfalls of Municipal Broadband

The AJP focuses its internet infrastructure investments on government and non-profit run broadband networks. Such networks are typically referred to as municipal broadband. The plan states that it will “prioritize support” for such networks, and congressional Democrats have also pushed for an end to state restrictions on municipal broadband. Advocates of municipal broadband argue that this approach can provide low-cost, high-speed internet and encourage economic development in currently underserved communities.

Economic analyses of past attempts at municipal broadband networks show they are often costly investments that do not deliver the promised improvements. While [some reports](#) argue that these networks have been able to provide fast service at more affordable costs than the private sector, a [further analysis by the Phoenix Center](#) has shown that when other errors in such studies are corrected, cities with municipal broadband had an average broadband cost 13 percent higher than comparable cities without government-run networks. Similarly, other promises about municipal broadband’s ability to bridge the digital divide by encouraging internet adoption or economic development have not proven to be true as an [econometric analysis by Tech Policy Institute’s Sarah Oh](#) found.

Focusing attention and resources on municipal broadband could slow the attempts to bridge the digital divide by discouraging private investment and deployment. The initial investment required for municipal broadband is high, and it takes significant time for such programs to be deployed. In fact, many proposed programs have [never been fully realized](#). While waiting for this investment in municipal broadband, these communities would be unlikely to see needed expansion by the private sector, and this shift to public broadband could even discourage currently planned private investments. Even if municipal broadband does not explicitly exclude private investment, these programs typically [deter private competitors and investment](#) by increasing the barriers to entry for other providers.

Instead of relying on top-down, government-run solutions that limit choice, policymakers should employ a light-touch approach while working with the private sector to identify and expand service to those currently lacking access to high-speed internet. During the COVID-19 pandemic, the Federal Communications Commission (FCC) increased access to spectrum for broadband, particularly in rural areas, so that the private sector could engage in deployment to meet the unprecedented demands. As a member of the Minnesota Governor’s Broadband Taskforce [noted](#), “This work requires partners. Work collaboratively—with internet service providers, other state programs, federal agencies, other agencies in your state, and philanthropic organizations. No one entity has the resources to solve the problem on its own. No one knows it all.” Working with the private sector has been key to ensuring a [robust internet infrastructure](#) that can grow and innovate in response to increased demands.

A Prelude to Price Controls?

In the statement introducing the American Jobs Plan, the Biden Administration claims that [internet services are “overpriced”](#) and makes clear that the administration hopes to lower the cost of internet service in a variety of ways. The statement asserts that the president will work with Congress “to reduce internet prices for all Americans, increase adoption in both rural and urban areas, hold providers accountable, and save taxpayer money.” This statement suggests that rather than just increasing or reforming existing programs that support offsetting the cost of internet access for qualifying households, the proposals for some sort of rate regulation for internet providers might be on the horizon.

The introduction of price controls for service providers could seriously harm consumers and further expand, rather than reduce, the digital divide. This kind of heavy-handed regulatory approach has shown its perverse effect on the market in 2015, with re-classifying Internet Service Providers as quasi-public utilities under Title II

provisions. Industry and scholars voiced concern in 2015 that the Order could result in price controls and significant government intervention to the market (although some [characterized these concerns as hyperbolic](#)).

This shift toward anticipated price controls resulted in a [continuous decline in broadband infrastructure investment](#) in the two years the Order was active. The economic intuition behind this behavior is simple: If the profit margins are reduced, the return on investment in infrastructure is lower, thus making investment in infrastructure unattractive for companies. This effect of price controls (whether actual or anticipated) is especially true in underserved areas, where the [cost of connection is significantly higher](#).

The introduction of price controls would diminish competition, as usually incumbents and bigger companies are the ones able to operate with smaller or negative profit margins, thus crowding out potential competitors. Consumers would end up paying the price of a more rigid market, as companies would face less pressure from competitors, allowing them to charge higher prices, provide a lower quality service, or postpone research and development investments.

Government-run broadband and price controls are not the only options. Existing programs such as Lifeline that seek to serve low-income households that could not otherwise afford communications technologies [could be reformed](#) to make these programs more easily accessible for those who qualify and allow more providers to participate in ways that truly solve today's communication needs. This kind of change is preferable to price controls as it addresses those truly in need while limiting the potential negative impact on the overall market. To be sure, the relationship between price and internet adoption is far [more complicated](#) than some might assume. Prior to the pandemic, one key reason individuals were unconnected was they did not see the value or benefit of connectivity. Only a small percentage of Americans don't use the internet, and further education for digital literacy and the benefits of connectivity might be useful for those interested.

Biden's AJP would likely make the nightmare of price controls a reality, which would result in Americans in hard-to-reach areas paying for these regulations with slower speeds, less innovation, or lack of access. Reduced profit margins and a stricter regulatory approach would crowd out investment, as companies face reduced returns on investment and higher regulatory risks, thus widening, rather than reducing the digital divide in underserved areas.

The Problems with One-Size-Fits-All Solutions

The AJP expresses a desire to "future proof" broadband connectivity. Yet by focusing a great deal of government investment on only certain internet infrastructure, the plan could discourage private sector innovation and investment in other forms of connectivity that might be better able to provide service in some currently underserved areas. Additionally, new definitions of internet speed could lead to investment in areas that are already connected over those not currently connected.

While there are debates about what speeds are sufficient to qualify as "high speed," the Biden plan requires that upload and download speeds be the same. This requirement does [not match](#) the reality of how most consumers use the internet nor the experience of those who already have high-quality connections. Improving internet quality may well be a worthy goal, but dedicating funds to improve already-connected areas could actually slow the rollout of internet to those communities that are currently not served at all. As FCC commissioner Brendan Carr [writes](#), "Overbuilding existing networks with taxpayer dollars does nothing to connect the millions of Americans that live in communities with no Internet service today. They should be our priority."

This focus on speed demonstrates a desire to implement a uniform internet across the country, and this desire has other negative implications as well. The plan emphasizes a definition of connectivity that relies on access to traditional broadband provisions, but new innovative technologies may be able to better serve communities for which it is exceptionally costly to deploy traditional broadband. Satellite internet services such as Starlink may be [able to compete](#) with more traditional broadband by providing similarly high-quality service but without the same deployment concerns and costs. Similarly, [5G technology](#) may provide an option for a quality mobile-only connection that can nevertheless allow consumers to use the internet for data-intensive purposes such as telemedicine or streaming. 5G will provide another option for [wireless home internet](#), as well.

In a desire to close the digital divide, policymakers need to encourage innovation that can lead to a variety of solutions rather than presume that current technology is the only option. To do this, regulators will need to examine the barriers that may be preventing the development or deployment of these technologies. Traditional broadband will continue play an important role, but the digital divide is a complex problem that will require a variety of creative and innovative solutions.

Conclusion

Policymakers on both sides want to solve the digital divide and help all Americans receive the benefits of internet connectivity. The heavy-handed regulatory policies proposed in the American Jobs Plan, however, could actually delay solutions and innovation by relying on a top-down, government-controlled approach that stalls existing progress. Enabling private-sector investment and innovation will help continue the development of a robust internet infrastructure and encourage creative solutions that fit the unique challenges of communities currently impacted by the digital divide.

