Telecom Investment: The Link to U.S. Jobs and Wages

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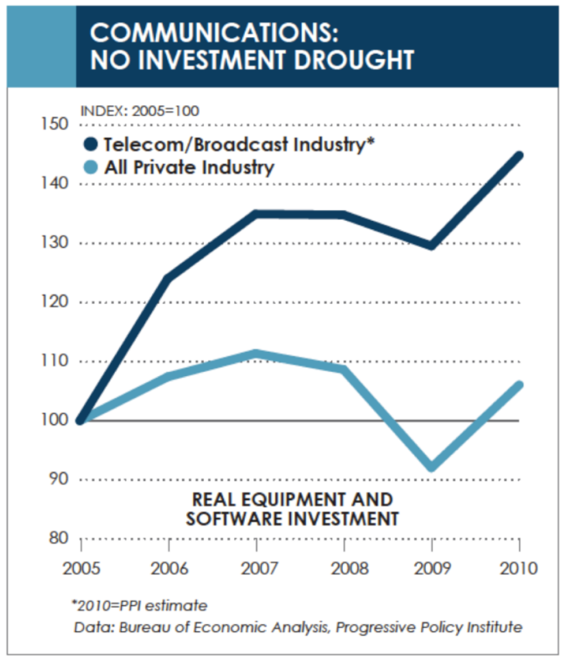
America's job drought is really America's capital spending drought. As of the first quarter of 2011—a year and a half after the recession officially ended—business capital spending in the U.S. is still 23 percent below its long-term trend. If domestic businesses are not expanding and investing, they are not going to create jobs.

The weakness in domestic capital spending is both perplexing and disturbing. It's accepted wisdom that we needed to work off the aftereffects of the housing and consumption bubbles, but very few economists believe that the U.S. suffered from an excess of business capital spending in the years leading up to the financial crisis. And there's no sign of a credit crunch for large businesses, which mostly seem to have access to sufficient funds to invest if they wanted.

However, there is one important exception to the investment drought: the communications sector. To keep up with the communications boom and soaring demand for mobile data, PPI estimates that telecom and broadcasting companies have stepped up their investment in new equipment and software by 45 percent since 2005, after adjusting for price changes (see the chart "Communications: No Investment Drought"). By comparison, overall private real spending on nonresidential equipment and software is only up by 6 percent over the same stretch.

In fact, the big telecom companies head the list of the businesses investing in America (see the table "Investment Heroes"). According to PPI's analysis of public documents, AT&T reported $19.5 billion in capital spending in the U.S. in 2010, tops among nonfinancial companies. Next was Verizon, with $16.5 billion in domestic capital spending in 2010. Comcast was seventh on the list, with about $5 billion in domestic capital spending (companies such as Google and Intel were a bit further down the list.).

The impact of such spending cannot be underestimated. This type of investment generates new jobs across the board. For example, the entire mobile ecosystem—the apps programmers, the cell-phone retailers, the companies that use mobile applications, the professionals doing business on the run—depend on having access to ever-expanding wireless networks with sufficient capacity.



Equally important is the positive impact of telecom capital spending on real incomes in the U.S. The link is straightforward: As the economy comes out of recession, the money spent on expanding and speeding up telecom networks will make American workers more productive, which typically leads to higher real wages and salaries. This boost from the communications sector is especially welcome because of the continuing capital spending slump in most other industries, which are becoming increasingly reliant on the wireless infrastructure to enable new services and boost efficiency.

What are the implications for government economic policy? Corporate taxes obviously have an impact on telecom investment, but that's a broad question that is getting plenty of attention elsewhere. Instead, let's focus on regulatory and antitrust policy. Oddly enough, at a time when business investment is weak, the Federal Communications Commission has been increasing the regulatory burden on the large telecom companies, who have actually been investing in the domestic economy. Heavier regulatory burdens mean lower returns, which generally lead to less investment. So we should be mindful of the economic impact new telecom regulations may have on investment and job growth going forward.

The other impact we should be mindful of in the current environment may result from our antitrust policy. In particular, regulators will be closely examining AT&T's planned acquisition of T-Mobile USA. For AT&T, some of the benefits of the merger will come from more efficient use of wireless spectrum resources as detailed in its submissions to the FCC. In theory, that could put a damper on investment in the short run. However, to allay that fear, AT&T has pledged $8 billion in extra capital spending over the next seven years to help expand the build-out of its high-speed wireless network, ensuring that its domestic investment will go up and not down after the deal. Based on widely cited estimates of the broadband multiplier, that additional investment should increase U.S. employment by roughly 20,000-30,000 jobs.

INVESTMENT HEROES

The top companies based on domestic capital spending*

CAPITAL SPENDING IN THE U.S, LATEST FISCAL YEAR	BILLIONS OF DOLLARS
AT&T	19.5**
Verizon	16.5**
Wal-Mart	8.8
Exxon Mobil	7.8
Chesapeake Energy	6.6
Chevron	6.4
Comcast	5.0

*Universe includes large nonfinancial U.S. corporations
**Includes a small amount of non-U.S. spending
Data: Company financial reports, PPI estimates.
Includes investment in exploration for energy companies.

Obviously, any acquisition of that size deserves close scrutiny by relevant government agencies. But instead of looking just at potential problems and harms, regulators should also consider how their decisions may boost investment in the U.S. economy. For example, they could take into account commitments made by the companies to put more money into capital investment and job creation here at home as part of a merger proposal, as in the AT&T example. At a time when more and more companies are hoarding their cash or looking overseas for growth, domestic capital spending is essential for the health of the U.S. economy. If we want to increase living standards and create jobs, government economic policy should be aimed at encouraging—not discouraging—companies to invest here at home.