



Internet Regulations Would Harm Consumers

Senate Proposal for Internet Regulations Would Reduce Economic Welfare

Coming on the heels of a productive “first 100 hours” in Congress that promises to help consumers and working Americans, a newly introduced Senate bill threatens to regulate the Internet, hurt consumers and benefit some corporate interests. Congress should resist the hyperbole that comes from corporate interest on both sides; and they should insist on empirical analysis on the economic effects of Internet regulations on American consumers, particularly low income families, seniors, minorities, disadvantaged and rural households.

“Net Neutrality” Legislation Introduced

Senators Dorgan and Snowe this week introduced legislation designed “... to ensure network neutrality...” by imposing government controls over Internet access rates and services. The controls proposed mirror those designed over a century ago to restrain the market power of the railroads – controls that were long ago eliminated following the development of competition to rail from other technologies. The legislation would restrict how cable and telephone network access providers design and differentiate their services, while imposing government review of any rate, charge or condition of service that generates a complaint from a single internet stakeholder. That alone suggests long and ponderous procedural delays to what is otherwise the economy’s most vibrant, fast moving sector.

Consumer Welfare Matters

The consumer welfare impacts of Internet regulation has been detailed in several quantitative studies, all of which have concluded that consumers are made worse off by proposed Internet regulations. The Institute released one such study last year by Dr. Larry Darby (available online at <http://www.theamericanconsumer.org>). The study concluded that Internet regulations, similar to those in the Senate bill, would result in higher consumer prices, dampen consumer demand, increase investment risk and reduce broadband network investment and diffusion. Significantly, Dr. Darby’s study concluded that such restrictions would lead over five years to between \$24 to \$32 billion in consumer welfare losses -- or approximately \$285 per broadband

household. Another study using similar methods by Professor Greg Sidak concluded that Darby's estimates were conservative and that regulations (again, similar to the Senate bill) would be even more harmful to consumers. Several other prominent regulatory economists – Professors Kahn, Crandall, Litan, Singer, Hahn, Wallsten and others – have studied the issue and also concluded that the proposed Internet regulations would be bad public policy.

A previous *ConsumerGram* from the ACI found that rules to limit service variation, market segmentation and price differentiation would reduce consumer welfare even further, since a mandatory “one size fits all” regulatory scheme will limit the scope and intensity of competition. The research showed that market segmentation and price differentiation is common throughout American industry; is particularly prevalent among web-centric firms (including those opposing the practice for network service providers; is quite lawful, absent specific harm to competition; does not require monopoly power; is widely supported by welfare economics and analysis; is necessary for efficiency and welfare maximization in most settings; and, overall, improves consumer economic welfare.

Another *ConsumerGram* found that net regulations would threaten service innovation, thereby harming consumers with disabilities, low-income consumers, the aged and infirm. A nationwide survey conducted by the Research Network for the American Consumer Institute found that 84 percent of consumers supported giving ISPs the option of providing “premium services that are faster, safer and more reliable.” Regulations permitted in the Senate bill would prevent this, and it would foreclose all such innovations, effectively limiting consumer choice.

Special Interest Views

In the face of all the evidence described above, there has not been one empirical-based study supporting the regulations proposed in the Senate bill. In fact, so-called *public advocates* that have favored increased Internet regulations still have not offered any substantive analytical support; nor have they attempted to address and rebut either the methods or results of the academic, economic studies by consumer welfare analysts.

Are these public advocates fighting the big corporations? Not really, there are corporate giants on both sides. However, as another *ConsumerGram* details, in this debate, the giant web-centric firms are the largest (in terms of market capitalization) and most profitable firms (in terms of net income earnings or return on investment). In other words, though styled as *consumer*

legislation, the impetus for the bill and its principal opposition comes largely from corporate interests claiming to advance consumer interests. These interests are supported by a litany of long and irrefutable truisms declaring the importance of fairness, openness, saving the Internet, Internet freedoms, preventing discrimination and urging government controls on that basis alone. While we should all share these values, the American Consumer Institute believes Congress should discourage self-serving rhetoric and insist on careful analysis – quantitative where the data allow – of the specific impacts on consumers as a whole and on particular groups identified in most economic policy analyses, including low income families, seniors, minorities, disadvantaged and rural households.

Beyond Rhetoric

The future of the Internet is important to American consumers, as is debate on the effects of policy on consumer welfare. In that vein, it is critical that legislators and regulators resist the hyperbole that comes from corporate interest on both sides of the debate, but weigh heavily on competent analysis of hard data designed to plumb the true impacts Internet policy alternatives. We cannot afford to make a mistake here.

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About The American Consumer Institute

The Institute is an independent public policy organization committed to providing information, analysis, and public policy research to the public for the betterment of American consumers. The Institute is primarily comprised of volunteer public policy experts covering a wide range of issues. For more information or to contact us, visit <http://www.theamericanconsumer.org>.