

EXECUTIVE SUMMARY

Consumer Welfare, Capital Formation and Net Neutrality: Paying for Next Generation Broadband Networks

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The US lags behind several other parts of the world in broadband development and the government is looking for ways to close the gap. The means for doing so are hotly debated with major stakeholders in the Internet value chain urging radically different approaches. The debate has centered around notions of “net neutrality” which has universal support in principle, but fails to find much in the way of consensus on details. A key element of net neutrality put forth by proponents is the proposition that of all the stakeholders in the value chain, only end users may be charged for network access and use. Other beneficiaries of broadband networks, including providers of software, applications and content, would by statute be insulated from paying providers of broadband networks. That notion – end users only pay – has gotten wide support from consumer groups, public interest advocates and from the largest content and applications providers.

This paper considers alternative payment arrangements sufficient to amortize investment in next generation broadband network and estimates their impact on consumer welfare.

The paper concludes that requiring end users only to pay for next generation networks:

- Is inconsistent with practice in other “multisided” markets;
- Will increase investor risk, suppress investment and slow construction of next generation broadband networks;
- Will increase rates to consumers; and
- Will reduce the present value of consumer surplus by more than \$8 billion in the top 20 SMSAs -- about \$285.00 per telco fiber connected household.

Extrapolating to households in other parts of the country and to other, non-telco platforms would very likely bring about at least 3 to 4 times that (\$24 billion to \$32 billion) in consumer welfare increase on a national basis.

Broadband markets are consistent with multisided markets in that the platform brings together independent groups that value each other’s participation in the market. Imposing rules that prevent voluntarily negotiated multisided prices will never achieve optimal market results, and, as this study shows, can only lead to a reduction in consumer welfare.