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Internet Policy: First, Do No Harm

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Two controversies dominate the current debate over Internet policy. First, should governments curb the titans of the Internet – the telecoms, cable companies and giant content providers – who may be in a position to increase their profits by raising prices and curbing supply? Second, should they intervene on behalf of the have-nots on the wrong side of the “digital divide?”

The case for more regulation has a certain appeal. It is clear that some firms offering Internet services are very large, indeed. Think of Verizon in the US, Vodafone in the UK, and Telefonica in Europe. Then there are the mega-corporations on the content side of the business – the Facebooks, Googles, and Amazons. But the closer one looks, the more problematic the case appears. The important questions to ask in these markets are (a) whether we are seeing substantial innovation that erodes potential market power without government help, and (b) whether government intervention might improve on a less-than-perfect reality.

In the case of the digital divide, a similar logic should prevail. Of course, people with money can and will buy better information technology. Everyone, after all, yearns for a smartphone. What we don’t know, though, is whether society would be better off if we subsidized Internet access.

Consider the arguments of Susan Crawford who worked for the Obama White House on telecommunications and Internet policy. In a recent piece published in the Harvard Law and Policy Review, Crawford argues that the “looming cable monopoly is prompting a crisis in American communications,” and that it’s up to Washington to fix it. She also suggests that high-speed networks funded by government “should be encouraged.”

We’re unconvinced. First, it is hardly clear that cable is a monopoly—in many areas wireless, DSL and satellite competitors limit the cable companies’ pricing power. Second, the government just does not have a good track record picking winners and losers.

She’s not so happy with Verizon and AT&T, either: “As they move towards squashing cheap data substitutes for expensive voice minutes, consider charging application providers to reach subscribers, layer on fees for additional devices, and collect overage charges for data usage, they will bulk up on customers and revenue. This is good for them, but not good for the rest of us.”

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This latter argument ignores some basic economic realities. First, prices for wireless data and voice calls have been drifting down, even as industry concentration has increased. Second, the wireless companies aren’t acting like monopolists eager to limit supply. In 2009, the latest year for which we could find data, wireless service providers spent more than $20 billion\(^3\) on new capital investment. Seems they still want to keep old customers satisfied and attract new ones.

Professor Crawford is right, however, to be concerned about a capacity crunch in the wireless market. And here, it really is the government’s job to help by auctioning off underutilized spectrum to its highest valued uses.

Even with more spectrum out there, the growing demand for wireless data services could lead to price increases. Indeed, Verizon appears to be moving in this direction by considering charging customers based on usage, and Vodafone already does the same in the UK. Interestingly, Verizon is also considering offering users free phone calls, but charging for data based on metered usage – a clever approach since folks could talk all day for the broadband needed to carry a few minutes of video.

But price increases wouldn’t necessarily be a bad thing. Under the old salad-bar approach to pricing, people who use less data were effectively subsidizing people who use more. With pay-by-the-megabyte, the heavy users would likely face higher monthly bills, and lighter users would likely pay less. Charge by the megabyte has other virtues, too. It creates incentives to consumers to treat bandwidth as a valuable commodity, along with incentives to the telecom business to figure out ways to deliver more bang for a buck.

Professor Crawford is equally emphatic on the subject of the digital divide. As she put\(^4\) it, “As our jobs, entertainment, politics and even health care move online, millions are at risk of being left behind.”

The only problem here is that the argument is at variance with the facts. A Pew Foundation survey shows that Internet use is up\(^5\) dramatically for every category of adult. Penetration among African-Americans, for example, has doubled (to 71 percent) since 2000.

In our view, there is simply not much justification for government, and particularly the U.S. government, to get involved in Internet policy in a heavy-handed way. Government’s primary responsibilities in Internet markets should be to vigorously enforce the antitrust laws and make available as much spectrum as possible to the highest bidders. Doing more would be an invitation to economic waste and social engineering.

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