July 7, 2010

The Honorable Julius Genachowski
Chairman
Federal Communications Commission
455 12th Street, SW
Washington D.C. 20554

Dear Chairman Genachowski:

On May 24th you received a letter signed by 74 members of the House of Representatives asking the Federal Communications Commission to refrain from moving forward with network neutrality regulations. The analysis in that letter is based on a misunderstanding of the current state of the Internet and does not accurately reflect the economic impacts of network neutrality. As economists who have researched the impact of network neutrality regulations on the Internet, the economy, and society as a whole, we ask that you consider moving forward with network neutrality regulations.

The letter submitted by the Representatives (as well as much of the analysis on both sides of the debate) does not recognize that the Internet currently operates under a *de facto* network neutrality regime. Most internet service providers do not currently engage in prioritization or price discrimination tactics that would be restricted under the proposed rules. The question therefore is not whether to impose network neutrality on the Internet; but rather it is whether to eliminate it. Ending net neutrality would represent a fundamental change in the way the Internet works. The consequences of such a change are impossible to predict with certainty. The Internet creates a tremendous amount of value for content developers, end-users, Internet Service Providers, businesses, and the workforce.

That letter also does not recognize that the Internet is characterized by market imperfections that network neutrality regulations may help correct. Economists generally agree that markets function best when they are left alone, but the Internet market exhibits failures which justify government intervention. These imperfections include a network effect: additional connections to the network make the Internet more valuable to all end-users and content providers on the network, thereby encouraging more end-users and content providers to join the network. Eliminating network neutrality would make it more expensive for content providers to reach end-users, driving some off the network. Because of network effects the exit of content providers may reduce the value of the Internet to end-users driving some off. This feedback mechanism may reduce the value of the Internet for all parties. Connections to the network allow users to join the network as consumers, but also to take advantage of productive activities such as investment, entrepreneurship and innovation, blurring the distinction between end-users and content providers.

The Internet also suffers from information externalities—positive spillovers that result from the provision of information. The Internet produces billions of dollars of free value for the American public: Information is shared, reused, and reconfigured without fees or penalties. Websites are not compensated when their content is repurposed or passed on—that means fewer subscriptions to paid services, fewer direct page views, and a loss of advertising dollars. If all the individuals who absorbed information were required to pay the content providers, content providers would generate more revenue.

Without network neutrality regulations, Internet Service Providers would be allowed to engage in pricing practices that transfer wealth from content providers to Internet Service Providers. Shifting wealth away from an already under-compensated group may worsen this market failure, disincentivize content provision, and make providing an economically efficient level of information on the Internet even more difficult.

The letter from the Representatives does not recognize that "the Internet" is not just Internet infrastructure, but also includes Internet content. The network neutrality debate is fundamentally about how to divide the value generated by the Internet. The Internet is properly defined as both as the physical infrastructure as well as the content and information moving along that infrastructure. Infrastructure without content is useless, as is content without infrastructure.

Eliminating network neutrality would shift wealth from content developers to Internet Service Providers and risks shrinking the pie for everyone. Internet infrastructure and Internet content are complementary goods, and both must be increased in tandem to maximize the value of the Internet. While it is possible that eliminating network neutrality would increase investment in Internet infrastructure, it would do so at a high price. Elimination may also decrease investment in Internet content, which is already suffering from underinvestment, and may decrease the wealth generated by Internet content. In addition, allowing for tariff-based prioritization schemes creates incentives for Internet Service Providers to artificially generate scarcity in capacity in order to support a higher tariff for prioritization. Hence, there is a good chance that investment in Internet infrastructure would be reduced following an elimination of network neutrality.

The Internet is a crucial tool for America's business and workers. The FCC should promulgate regulations designed to maximize the value of the Internet to Americans and maintain the incredibly robust, productive and participatory environment that thrives on a nondiscriminatory Internet.

Sincerely,

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