Institute *for* Policy Integrity

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MEMORANDUM

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Re: Myths and Facts in the Net Neutrality Debate

The debate over net neutrality has been raging for years now, and important facts are getting lost in the shuffle. This document lists some of the myths being bandied about by parties on both sides, as well as by the media. We attempt to refute these misconceptions with facts, describing where flawed assumptions underlie certain myths, or where available information is too incomplete or ambiguous to support the conclusion being drawn. Strong arguments weigh in favor of net neutrality rules, yet reasonable arguments also caution against them. There is no reason for either side to rely on myths to win support.

- **Myth #1:** Network neutrality rules will change the Internet as you know it.
    - **Fact.** Net neutrality rules will allow consumers to *keep* the Internet they've come to know and love. Rules will restrict Internet Service Providers (ISPs) from using new technology to radically change how the Internet works. This technology would allow ISPs to look at the source and destination of every piece of information flowing through their networks, and prioritize some content over others. This means ISPs could create fast and slow lanes for Internet traffic, and charge content providers to get their content (applications, websites, etc.) in the fast lane. This type of "price prioritization" does not currently exist, and would alter fundamentally how information is accessed and shared on the Web.

- **Myth #2:** ISPs will not do anything to reduce the value of the Internet to their consumers. It would be bad for business.
    - **Fact.** ISPs receive only a small fraction of the economic benefits (including profits) generated by the Internet market. The rest go to end-users and content providers. ISPs would be willing to reduce the value of the Internet as whole, in order to increase their share of the pie. In fact, it would be good business for ISPs to increase their revenue by extracting new fees from content providers.

- **Myth #3:** Bilateral commercial agreements, such as that proposed by Verizon-Google, are sufficient to protect the open Internet.
    - **Fact.** The Verizon-Google proposal has two major exemptions that could undermine network neutrality. Such exemptions might protect the business interests of these companies, but would not protect the value of the Internet as a whole. In addition, agreements between established players may make the market more difficult for new firms to enter, reducing the intense competition on the Internet and potentially reducing the value of the Web for everyone.

- **Myth #4:** Net Neutrality protections will cost jobs, or otherwise depress employment.
    - **Fact.** There is no basis for claims of net job losses caused by net neutrality rules. Arguments that suggest that the FCC's proposed rule will lead to massive job losses rely on dated techniques and fail to account for the dynamism of the economy. While there is no reliable way to predict the job impacts of net neutrality rules in the United States, there are many more jobs at the edge of the network than in ISPs.[1] Redirecting resources (investment capital and labor) from content providers to ISPs will reduce the number of jobs at the edge. In terms of a potential tradeoff between jobs lost on the edge and new ones created in ISPs, we cannot forecast how many jobs, if any, would be created in ISPs; nor can we predict whether those jobs would pay as well as those in content development.

- **Myth #5:** Net neutrality rules will inject uncertainty into the market, thereby discouraging investment.
    - **Fact.** The opposite is true. The Internet market in the United States has always functioned under net neutrality. Switching over to a non-neutral system, with an untested price-prioritization regime, would create a large amount of uncertainty. It would generate many unknowns, including whether ISPs could price discriminate efficiently, whether ISPs would invest additional revenue into infrastructure, and whether eliminating net neutrality would increase broadband competition. Given current understanding, changing the status quo would create more uncertainty than maintaining it. In the future, as the comparative impact of different Internet policies among countries becomes clearer, more data about the potential consequences of allowing limited price-prioritization will available, reducing some of this uncertainty. At present, however, well-delineated net neutrality protections will generate far less uncertainty in the market than changing to a non-neutral regime.

[1] The "edge of the network" refers to areas of the Internet market that are unrelated to the actual providing of network connectivity or infrastructure. Search engines and websites, for example, exist on the edge of the network.

- **Myth #6:** Net neutrality rules will stifle innovation, leading to undesirable outcomes such as less bandwidth, less sophisticated networks, and less robust and ubiquitous connectivity.
    - **Fact.** There are strong reasons to believe that the reverse is true—a failure to enact net neutrality protections could, on the whole, stifle innovation. First, a non-neutral regime would likely hinder innovation in content, as ISPs make it more expensive for new applications and websites to recoup or make a profit off of their investment. Net neutrality fosters competition on the edge of the network (areas of the Internet market that are unrelated to the actual providing of network connectivity or infrastructure). Second, in a non-neutral regime, ISPs might prioritize their own content over competitors, thus reducing competition. For instance, in a world without net neutrality protections, a search engine could strike an exclusive deal with a particular ISP, effectively ending competition in the search field.

      ISPs and telecommunications companies claim that neutrality rules will discourage continued investment in wired and wireless infrastructure. However, there is no reason to believe this would be the case. Assuming that an "investment tradeoff" exists, there is no reason to believe that diminished investment in infrastructure would be more harmful to the market than a reduction in content investment. Market failures inherent in the Internet market dictate that absent outside intervention, there will always be an inefficient tradeoff like that described above. If the government can address this problem at low cost, it should do so. As a practical matter, it is much easier for the government to provide direct support for infrastructure than for content. Therefore the optimal approach is for the government to (a) support infrastructure directly, through subsidy programs; and (b) support content indirectly through net neutrality rules that prevent ISPs from extracting rents from content providers, thereby preserving the revenue streams flowing to content providers.

      On balance, preserving net neutrality would cause less disruption to incentive structures than switching to a non-neutral regime.

- **Myth #7:** Network neutrality rules will reduce and discourage investment in infrastructure, including broadband.
    - **Fact.** There is no guarantee that extra revenue from ending network neutrality would go to investment in a better Internet. There is, however, reason to believe that ISPs would simply return a substantial portion of that money to shareholders. There is also reason to believe that failing to enact net neutrality protections would actually lessen incentives to invest in additional infrastructure, because ISPs would be able to collect more revenue from specialized services as their

network becomes more congested. This generates a disincentive to invest in expanding capacity.

Allowing ISPs to price-prioritize is an extremely expensive way to encourage new investment. If an important goal of government policy is to increase private investment in Internet infrastructure, we can use tax rebates and other incentives that will accomplish this more directly and cost effectively.

- **Myth #8:** Net neutrality rules will prevent carriers from being able to prioritize Internet traffic that could save lives.
    - **Fact.** Net neutrality need not require ISPs to transmit youtube videos at the same speed as telemedicine or other life-saving Internet traffic. Net neutrality is not about preventing ISPs from prioritizing types of media (voice, video, etc.) but rather about preventing ISPs from being able to prioritize between *companies* that produce the same types of media, based on which companies can afford to pay the ISP a priority surcharge.

      It would be easy for the FCC to carve out exceptions for types of Internet traffic related to health or safety emergencies, or traffic coming from certain sources, such as hospitals. Moreover, without regulations on price-prioritization, smaller and less profitable clinics and health care providers wanting to provide or to access advanced healthcare technologies could be hobbled from doing so, as they are forced to reach agreements with various network providers.

- **Myth #9:** Wireless Internet is different from wired (broadband) and should be exempted from any net neutrality rules.
    - **Fact.** There is no economic reason to treat wireless and broadband differently. In fact, applying different regulatory regimes to different modes of accessing the Internet could pervert investment incentives, ultimately reducing the value of both wired and wireless networks for everyone. If network neutrality protections are applied to broadband, but not to wireless, ISPs will concentrate their investment in wireless infrastructure. But content developers will focus more in producing applications for broadband, since their returns will be higher on that platform. This mismatch of investment incentives could lower the value of both networks for ISPs, content creators, and end-users alike.

- **Myth #10:** Network owners require the ability to price-prioritize in order to build faster, more comprehensive Internet service.
    - **Fact.** The United States consistently ranks in the middle of the pack among rich countries in terms of speed, accessibility, and cost of broadband. Many of the

countries with better Internet service than the United States have strong nondiscrimination policies in place, which suggests that ending network neutrality is not a condition for producing ubiquitous high-speed Internet.

- **Myth #11:** Net neutrality rules could hurt consumers by limiting their options for faster Internet.
    - **Fact.** While net neutrality rules would restrict the behavior of *ISPs*, by prohibiting them fast-tracking whatever Internet traffic they like, failing to enact net neutrality rules could result in a far greater reduction of choice for consumers. This is because switching to a non-neutral regime would decrease incentives for content providers to create new content and new applications, which in turn would reduce the quality and diversity of Internet content that consumers currently enjoy.

- **Myth #12:** Businesses should oppose network neutrality rules.
    - **Fact.** Generally speaking, network neutrality rules will protect the current distribution of benefits (including revenue) that the Internet market generates. ISPs will, however, lose out on a potential source of new revenue: fees extracted from content providers. In this way, content providers and other companies at the edge of the network will win with net neutrality, but no single regime is going to best for all businesses.