



Net Neutrality: Time for a Bandwidth Market?

Letting the market price internet bandwidth is not a bad idea.

Last Tuesday, Verizon won a case against the Federal Communications Commission (FCC) in a US court, where the judge ruled that "the FCC had overreached its powers in imposing 'net neutrality' rules on internet service providers" (see FT article here). While the battle for (or against) net neutrality is far from over - e.g. the FCC considers an appeal among other possible measures - it is definitely a decisive step towards differential pricing for speed/transmission quality of internet content. Advocates of net neutrality argue that this may favor large internet companies with deep pockets (e.g. Google) and lock out cash-poor start-ups, thereby stifling innovation. But does this argument really hold?

For one, perfect net neutrality cannot really exist. Bandwidth is a limited resource and, being free, congestion is impossible to avoid. Service providers have always had to manage bandwidth to make sure that one provider is not overusing the system to the detriment of others. Until now, they've had to do this in an ad hoc manner. It seems to me that creating a market for bandwidth is not necessarily a bad idea: maybe running an auction in real time? For one, this may actually increase overall bandwidth because companies investing in infrastructure can recoup their investments better by charging their users more efficiently (the assumption being that consumers' willingness to pay for content will be

reflected in content providers' willingness to pay for bandwidth, i.e. access to these consumers).

A consequence is that free content may be more scarce on the internet. But again, while this is bad for consumers in the short-run, it may actually help innovation (content providers can charge for their material), thereby making consumers better off in the long run. Wouldn't it be great, for instance, if sites providing pirated content would be 'penalised' for using excessive amounts of bandwidth? Funnily, Google, which counts as an "incumbent with deep pockets" is a big supporter of net neutrality. Doesn't this suggest that it benefits disproportionately from it? Given the bandwidth used to upload and stream YouTube videos, it wouldn't be surprising.

More generally, it is not clear that such "heavy" regulation (net neutrality is pretty heavy in my mind) is needed in this case. The FCC could impose a "minimum access" rule for instance in the spirit of "free speech" but let the market figure out how to price scarce resources beyond that.

Miklos's blog

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