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Press Release

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Current Network Neutrality Proposals Have it Backwards

FCC's Proposed Rules Would Promote Exclusionary Conduct and Harm Consumer Welfare

WASHINGTON, D.C. - Current proposals to promote an "Open Internet" before the Federal Communications and Congress actually increase the incentive of Broadband Service Providers to engage in exclusionary conduct in the content sector according to a new economic analysis released by the Phoenix Center today. The economic analysis, *Sabotaging Content Competition: Do Proposed Net Neutrality Regulations Promote Exclusion?* by Phoenix Center Chief Economist Dr. George Ford and Phoenix Center Senior Fellow Dr. Michael Stern, shows how net neutrality regulation as proposed by the FCC and Congress are "fundamentally defective" because such rules actually "encourage exclusionary behavior rather than impede it."

As Drs. Ford and Stern explain, "Ironically, net neutrality rules, which are supposed to suppress privately profitable exclusionary conduct, will actually have an effect opposite of what is intended." The authors get this result because "net neutrality regulations now under consideration will not reduce the profits associated with monopolization of content, but only those associated with the participation in a competitive content market..." Should the FCC adopt its non-discrimination rule as currently proposed, Drs. Ford and Stern demonstrate that "the proposed rule encourages broadband service providers to take steps to reduce the diversity of voices on the Internet to the detriment of the public interest."

"The network neutrality debate has devolved into rhetorical and populist arguments with little serious analysis of the economic effects of the specific rules proposed by the Federal Communications Commission," according to Phoenix Center President Lawrence J. Spiwak. "To this end, the economic analysis released today will be the first in a Phoenix Center series over the coming months to focus directly on the cost/benefits of the proposed rule contained in the FCC's 'Open Internet' proceeding. We encourage others to do the same."

"Now that there is a proposed non-discrimination rule on the table, we can move to the formal study of the economic effects of net neutrality regulation", says study co-author Dr. George Ford, the Phoenix Center's Chief Economist. "After review, it becomes abundantly clear that net neutrality is explicitly price regulation, and that the incentives created by the rule are contrary to the stated purposes of net neutrality regulation."

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“The rules proposed by both the FCC and Congress actually create incentives for broadband service providers to behave badly in the content market” adds study co-author Dr. Michael Stern, Phoenix Center Senior Fellow and a professor in the Economics Department at Auburn University. “Our research makes clear that the analytical foundation for net neutrality remains in its infancy and the concept needs more time to evolve.”

A full copy of PHOENIX CENTER POLICY PERSPECTIVE NO. 10-02: *Sabotaging Content Competition: Do Proposed Net Neutrality Regulations Promote Exclusion?* may be downloaded free from the Phoenix Center’s web page at: <http://www.phoenix-center.org/perspectives/Perspective10-02Final.pdf>.

The Phoenix Center is a non-profit 501(c)(3) organization that studies broad public-policy issues related to governance, social and economic conditions, with a particular emphasis on the law and economics of telecommunications and high-tech industries.

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