



## Leave Internet Access to the Market

by Donald L. Alexander, Ph. D.

### Summary

Cable companies have a head start in the emerging market for high-speed Internet access, and slower dial-up Internet service providers (ISPs) including America Online are demanding that government intervene to “level the playing field.” But government intervention in the competitive market for Internet access will only lead to higher prices and fewer options for consumers.

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How many times have you stared at your computer screen, waiting for your Internet connection to catch up to where your fingers have told it to go? Most of us have experienced this frustration, which may explain why many users are now ditching their traditional modem-and-telephone connections and using high-speed “broadband” technology to do their cybersurfing.

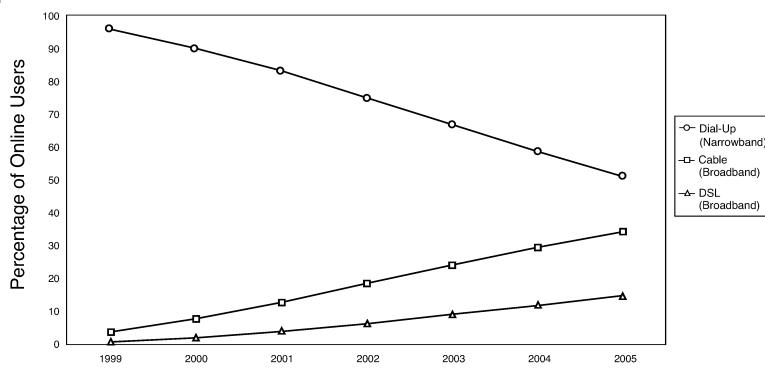
Cable firms and local telephone companies are racing to offer this new broadband technology, which allows Internet users to ramp up to access speeds as much as 100 times faster than those available through a regular dial-up connection. Unfortunately, while the broadband revolution means that Internet access probably will wind up being faster for everyone, it could also wind up being more expensive instead of less.

Why? Major dial-up Internet service providers (ISPs), including America Online (AOL) and MindSpring Enterprises, have formed a coalition with several telecommunications firms and “consumer advocacy” groups to lobby government for new regulations that could stifle competition that would otherwise bring prices down.

The coalition, calling itself “OpenNet,” complains that cable television companies have a big head start in the market for high-speed Internet access. This not only places cable firms ahead of the slower dial-up ISPs like AOL, it also opens the possibility that the firms might begin to compete for phone customers, since broadband cable lines can also carry phone signals.

Rather than meeting this challenge in the marketplace with new innovations and lower prices, the companies of OpenNet wish to convince federal, state, and local regulators to force cable television companies to “share” their broadband cables with other companies. They argue that a few cable firms will control all access to the Internet if government does not intervene in the market with so-called “open access” policies. However, the likely

### Estimated Increase in Broadband vs. Narrowband (Dial-up) Internet Users, 1999-2005



Increasing numbers of Internet users are expected to switch from slower dial-up (narrowband) service providers such as America Online to high-speed cable and digital subscriber line (DSL) broadband connections.

result of intervention will be higher costs for consumers and no significant increase in the number of Internet access options.

This is what typically happens when innovation opens new vistas for consumers. Some firms are always in a better position to take advantage of a new opportunity than others. But this should not prompt the government to disrupt the process by which the market fills consumer demand.

If the government does intervene with a policy of “open access,” the urgent market incentive for ISPs—including new, upstart companies—to catch up with cable operators in the development of broadband capacity will be diminished. The incentive for cable operators to take advantage of their head start also will be lessened. And the competition over price that would have ensued—to the advantage of consumers—will be far weaker and produce far fewer options and advantages.

A similar scenario unfolded when Congress passed the 1996 Telecommunications Act, designed to “level the playing field” in telephone service by forcing established telephone companies to make their network facilities available to competing firms. Here in Michigan, instead of facilitating competition, “open access” policy stifled it. In 1998, despite all the advertising heard from new companies, the big local telephone companies Ameritech and GTE-Michigan still earned 96 percent of all local service revenues.

By all measures, the market for Internet access is dynamic and competitive. Consumers wishing to access the Internet can, in many localities, purchase this service from a wide range of suppliers, with each supplier offering a different technology with distinct advantages and disadvantages. For these reasons, politicians and regulators should reject specious claims about “leveling the playing field” and refrain from passing any “open access” legislation.

Policy makers should instead end the system by which cable companies gain monopoly franchise agreements in local areas. Since the 1960s, local governments have granted cable operators monopoly status, stifling what would otherwise be a competitive market between cable operators. This—not the cable operators’ broadband capability—is the real inequity lawmakers should address.

Michigan lawmakers can lead the way to better Internet access, better cable television service—and lower costs for both—by refusing to force cable operators to make their cables available to their competitors while simultaneously ending the practice of granting cable companies the privilege of operating local monopolies. This would truly level a playing field that has for too long stifled competition at added cost to consumers.

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***The likely result of government intervention in the market will be higher costs for consumers and no significant increase in the number of Internet access options.***

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