The Internet is largely meritocratic in its design. If people like instapundit.com better than cnn.com, that's where they'll go. If they like the search engine A9 better than Google, they vote with their clicks. Is it a problem, then, if the gatekeepers of the Internet (in most places, a duopoly of the local phone and cable companies) discriminate between favored and disfavored uses of the Internet? To take a strong example, would it be a problem if AT&T makes it slower and harder to reach Gmail and quicker and easier to reach Yahoo! mail?

Welcome to the fight over "network neutrality," Washington's current obsession. The debate centers on whether it is more "neutral" to let consumers reach all Internet content equally or to let providers discriminate if they think they'll make more money that way.

The cable firms and the Bells have (to their credit, but under pressure) sworn off blocking Web sites. Instead, they propose to carve off bandwidth for their own services—namely, television—and, more controversially, to charge selected companies a toll for "priority" service. FCC Chairman Kevin Martin thinks there is nothing wrong with that. But critics say technological prioritization and degradation are the same thing—that given limited room on the network, whoever isn't prioritized is by implication degraded.

In trying to figure out who's right, let's forget about the Internet and look at KFC. The fast-food chain discriminates. It has an exclusive deal with Pepsi, and that seems fine to pretty much everyone. Now, let's think about the nation's highways. How would you feel if I-95 announced an exclusive deal with General Motors to provide a special "rush-hour" lane for GM cars only? That seems intuitively wrong. But what, if anything, is the difference between KFC and I-95? And which is a better model for the Internet?

Two obvious differences are market power and the availability of substitutes. KFC is a small fry, relatively, locked in competition with the likes of McDonald's and Popeye's. KFC sells Pepsi? So what? McDonald's sells Coke.

It's a lot harder to substitute for an interstate. And if highways really did choose favorite brands, you might buy a Pontiac instead of a Toyota to get the rush-hour lane, not because the Pontiac is actually a good car. As a result, the nature of competition among car-makers would change. Rather than try to make the best product, they would battle to make deals with highways.

That's what would happen if discrimination reigned on the Internet: a transformation from a market where innovation rules to one where deal-making rules. Or, a market where firms rush to make exclusive agreements with AT&T and Verizon instead of trying to improve their products. There's a deeper point here: When who you know matters more than anything, the market is no longer meritocratic and consequently becomes less efficient. At the extreme, a market where centralized actors pick favorites isn't a market at all, but a planned economy.

What we're ultimately asking is a question that Adam Smith struggled with. Is there something special about "carriers" and infrastructure—roads, canals, electric grids, trains, the Internet—that mandates special treatment? Since about the 17th century, there's been a strong sense that basic transport networks should serve the public interest without discrimination. This might be because so much depends on them: They catalyze entire industries, meaning that gratuitous discrimination can have ripple effects across the nation. By this logic, so long as you think the Internet is more like a highway than a fried-chicken outlet, it should be neutral in what it carries.
This is the basic case for network neutrality—to prevent centralized control over the future of the Internet. But there's a long-standing rebuttal that goes like this: A broadband company already has incentives to make the network neutral, because it's a better network that way. If AT&T makes money on an exclusive deal, they'll lose it somewhere else. Whatever money AT&T earns by prioritizing Google rather than Yahoo!, it will lose by making its product—broadband service—less attractive to consumers. By this logic, regulating the Bells is a waste of time. AT&T and Verizon also say that they must be free to discriminate to justify their investments in building networks. If you don't let us discriminate, they say, we won't build.

It's true that the Bells might make extra cash by discriminating. But AT&T can extract cash in other ways, too, like charging its customers higher prices. I believe that it's better to have consumers pay more for service than to have AT&T picking and choosing winners on the network. Both are a cost to the economy, but the latter is a double cost. It creates costs that are passed on to consumers anyhow, and it also distorts competition between eBay, Yahoo!, and the like. Building networks at the expense of network applications has a logic O. Henry would enjoy, for it's akin to selling a painting in order to buy a better frame.

None of this is to say that a good network-neutrality rule must be absolute, or even close to absolute. It's an open secret that AT&T and Verizon want to become more like cable television companies. If Verizon wants to build a private network to sell TV, that would justify broad powers to control the network, a precondition to providing the service at all. No neutrality rule should be a bar to building better networks that do more.

But what must be banned are blocking, gratuitous discrimination, and choosing favorites. While it's one way to earn cash, it's just too close to the Tony Soprano vision of networking: Use your position to make threats and extract payments. This is similar to the outlawed, but still common, "payola" schemes in the radio world. Yes, there's money in such schemes, but they aren't good for the industry or the country. If allowing network discrimination means being stuck with AT&T's long-term vision of the Internet, it won't be worth it.

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