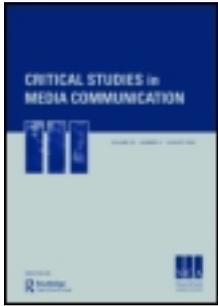


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# Be Realistic, Demand the Impossible: Three Radically Democratic Internet Policies

Robert W. McChesney

*The policies surrounding the Internet in the United States are determined by what the wealthiest and most powerful players wish to have happen. This is producing a digital world that is inimical to democracy and to the revolutionary potential of these technologies. The author argues for radical policies: the nationalization of the ISP/cellphone industry and its conversion to a public utility; the nationalization of huge Internet monopolies that are impervious to antitrust; the adoption of a massive public subsidy to pay for independent, competitive, uncensored, noncommercial news media. The author points out that these proposals have a basis in conservative theory as well as radical and liberal democratic theory. It is imperative to broaden the debate and draw the citizenry into it.*

*Keywords: Internet; Democracy; Capitalism; Monopoly; Journalism; News; Competition; Regulation; Policy*

In this article I propose three policy ideas to make the internet a force for democracy in the U.S., and potentially worldwide. These are radical ideas, far outside the existing range of debate inside political circles or even the academy. My unorthodox approach rests on a series of propositions:

First, the internet has developed as it has largely as a result of policies; there is no such thing as a natural “default” course of development. That it switched from being an anti-commercial, egalitarian institution in the early 1990s to a “whoever makes the most money by any means necessary wins” undertaking was not foreordained by the gods. It was the province of politics (McChesney, 2013).

Second, the internet has become a, if not *the*, dominant force in modern capitalism. Three of the four most valuable publicly traded corporations in the U.S.

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are internet-related firms, and 13 of the 32 most valuable firms are primarily internet firms (iWeblist, 2014). By contrast, only three of the “too big to fail” banks—which Senator Richard Durbin (D-IL), in reference to Congress, concedes “frankly own the place”—rank among the 32 most valuable firms in the economy (Grim, 2009).

Third, U.S. capitalism is in the midst of what Paul Krugman refers to as another Great Depression. Unemployment remains very high, corporations are sitting on some \$1.7 trillion that they do not invest in new plants and equipment, and downward pressures on wages, particularly for the working class, are extreme (“Labour pains,” 2013). Consequently, poverty rates have returned to levels not seen for nearly a century in the U.S., and inequality in the U.S. is trending toward that found in Malaysia or the Philippines, with western Europe and Japan in its rearview mirror (Abramsky, 2013). Nothing in the range of current debates on economic policy proposes anything that will change this dynamic.

Fourth, the U.S. political system has become what John Nichols and I characterize as a “Dollarocracy” (Nichols and McChesney, 2013). The vast majority of the population has no influence over core policies, regulations, taxation, or the budget, which are the province of large corporations and the very wealthy, who dominate American governance (Gilens, 2005, 2012; Schlozman, Verba, & Brady, 2012; Bartels, 2008; Hacker & Pierson, 2010). Systemic corruption is the order of the day. The election system has been rendered largely ineffective as a means for citizens to engage in self-government. As former president Jimmy Carter said in 2013, the U.S. is no longer a “functioning democracy” (Riva, 2013).

These above propositions are closely related. They lead to a final proposition: The current political economy situation in the U.S. is unstable and ultimately untenable. When one factors in the environmental crisis, this becomes an even more calamitous and desperate period (Klein, 2013). In the past 150 years the U.S. has had several moments of major reform—Reconstruction, the Progressive Era, the New Deal, and the 1960s—in which social upheaval led to sweeping changes being enacted that made the country more democratic and addressed growing inequality and corruption. When such reform periods do emerge—what have been termed *critical junctures*—all the major institutions in society are subject to criticism in a manner that does not exist in more stable times. What had been regarded as impossible becomes realistic.

Nobody can predict the future, so I cannot guarantee that the U.S. is on the verge of such a reform period. But I can say the conditions are ripe by historical standards, and in my view the U.S. desperately needs such an era of fundamental reform, arguably equal to or greater than any in the nation’s history. Hence it is incumbent upon all who cherish democratic values to work toward encouraging such a period. One way to do that is to cast our vision for how society can be structured far beyond what is permissible to the existing rulers of the political economy. In the second decade of the 21st century in the U.S., that means directly challenging the existing internet regime. Unless we can begin to imagine the impossible, it may never become realistic.

### **First Proposal: End the ISP Cartel**

Back in the 1990s much verbiage was expended about how the internet would unleash such a ferocious wave of competition between the Baby Bell telephone companies, the long-distance providers, and the cable TV companies that government regulation (of what were mostly licensed monopolies) in the public interest was no longer necessary. The market could work its magic in combination with the digital revolution, which made competition seemingly endless. There were roughly 15 major Baby Bell, long-distance, and cable/satellite TV companies in 1996, and, it was said, they were raring to take each other's business if they were freed from government regulations. These firms also said they needed to be unchained because scores of new competitors were about to capitalize on the possibilities of digital technology and come after their markets.

These claims constituted one of the largest piles of horse manure in American political history. The dominant firms that pushed this line of reasoning knew they could game the system sufficiently to all but eliminate the threat of real competition, and they could use the relaxation of rules to greatly increase their market power (Wu, 2010). In 2013, there were only a half-dozen or so major players that dominated the provision of broadband internet access and wireless internet access. Three of them—Verizon, AT&T, and Comcast—dominate the field of telephony and internet access, and have set up what is in effect a cartel. They no longer compete with each other in any meaningful sense. As a result, Americans pay far more for cellphone and broadband internet access than most other advanced nations and get much lousier service. “They’re making a ton of money,” one telecommunication executive said about the cartel members in 2013. “They’re picking the pockets of consumers” (Greeley & Moritz, 2013).

These are not “free market” companies in any sense of the term. Their business model going back to pre-internet days has always been to capture government monopoly licenses for telephone and cable TV services. Their “comparative advantage” has never been customer service; it has been world-class lobbying. It was that power that made it possible for them to endlessly merge into corporate goliaths and permitted them to quietly overturn existing regulations a decade ago so they could monopolize their networks for broadband internet access. That killed competition once and for all. The remaining public interest regulations these behemoths face today are laughable.

The public interest community has responded in a number of ways. One policy response has been to press for Network Neutrality, which would prevent the cartel from using its monopoly power to censor websites. (If there were actual competition, the policy would be unnecessary because consumers would be unlikely to select an internet service provider [ISP] that engaged in censorship.) Another response has been for communities to set up their own local municipally run broadband services—a public option, if you will. Wherever the cartel has not been able to crush these efforts, the municipal broadband services have proven highly popular. But they are in a constant battle for survival as the cartel uses its considerable lobbying muscle to try to outlaw them.

The cartel has passed its historical expiration date. These firms are parasites that use their government-created monopoly power to exact economic “rents”—by which economists mean undeserved income—from consumers and other businesses. Let’s pay them a fair price for their equipment and cash them out. Then let’s make cellphone and broadband access ubiquitous and as close to free as possible. (And, by doing so, we could stop paying through our teeth for satellite TV and cable TV services as well.) How to structure a publicly owned nonprofit network, a digital post office, is exactly where study, debate, and discussion should be directed. It is a solvable problem and one that demands immediate attention.

Ironically, although socialists and progressives have traditionally liked this approach to telecommunication, this is an idea with considerable resonance in the business community as well, as other firms are tired of paying a ransom to the cartel for crappy service. Google launched its own broadband service in Kansas City, if only to demonstrate how it would be possible to have a vastly superior broadband network if the cartel simply got off its butt and invested some of its mega-profits into it. In 2008 then-Google executive and legendary internet architect Vint Cerf asked publicly whether the internet might not be better if the data-pipe infrastructure were “owned and maintained by the government, just like the highways” (Schonfeld, 2008). It is a serious question that demands a serious answer.

### **Second Proposal: Treat Monopolies like ... Monopolies**

One of the reasons the internet boom has not led to a golden age of investment and prosperity in contemporary capitalism—unlike, say, what followed from the emergence of the automobile and all of its many related industries in the twentieth century—is that much of the wealth generated by the internet has been funneled into a very small number of hands. Aside from the cartel, which was an outgrowth of the old telecommunication monopolies, the internet has produced monopolistic titans like Google, Apple, Amazon, Facebook, eBay, Microsoft, Intel, Cisco, Oracle, and Qualcomm.

These firms take advantage first and foremost of network effects, which tend to produce “winner-take-all” markets and where there tends to be almost no middle class of mid-sized firms. In addition, patent law and traditional economies of scale contribute to insurmountable advantages over potential adversaries. Indeed, increasingly the internet seems like a walled garden where these giants are battling with each other for domination in existing and prospective markets, and no one else has a prayer, except to get bought out by a giant. In 2013 the head of the Wikimedia Foundation, which operates the ubiquitous nonprofit and noncommercial Wikipedia, stated that it would be impossible for Wikipedia or anything like it to be created and thrive on the internet today due to the dominance of the internet monopolies (Sue Gardner, personal communication, October 22, 2013). The system is locked down.

In combination, these firms have virtually unassailable power in Washington, and the only time they face any regulatory threat is when the giants find themselves on opposite sides of an issue, as has happened with Network Neutrality and intellectual

property debates. These firms tend to get glowing press coverage, and their executives and largest investors are regarded like celebrities or championship athletes; the idea that these firms' legitimacy might be challenged probably seems preposterous to all but a few.

But these are all monopolies in the sense that economists use the term: they control sufficient market share—usually at least 50 or 60%—to determine pricing and to determine how much competition they have. As such they pose a direct threat not only to smaller enterprises but to democratic governance. This, again, is not exclusively a belief held by socialists and progressives; it has been at various times a staple belief of conservative free market economic theory.

No less a figure than Milton Friedman argued that capitalism was superior for political freedom and democracy because it separated political power from economic power, unlike feudalism or communism, under which the people who controlled the economy also controlled the politics (Friedman, 1962). One of Friedman's mentors at the University of Chicago, the *laissez faire* champion Henry C. Simons, said it was imperative that private firms not be allowed to become too large and monopolistic for this argument to hold (Simons, 1948). Giant monopolistic firms kyboshed the ability of capitalism to remain democratic, because the large firms would overwhelm governance. Here Simons was in agreement with his periodic adversary President Franklin Roosevelt, who in a 1938 message to Congress stated: "The first truth is that the liberty of a democracy is not safe if the people tolerate the growth of private power to a point where it becomes stronger than their democratic state itself. That, in its essence, is fascism—ownership of government by an individual, by a group, or by any other controlling private power" (Roosevelt, 1942).

Simons argued that it was imperative—for both genuine free enterprise and democracy—that monopolistic firms either be broken into much smaller competitive units or be "socialized" and directed by the government in a transparent manner (Simons, 1948). Because network effects make it nearly impossible to imagine the effective breakup of the internet giants, Simons's analysis points squarely in one direction. It is high time we take seriously his concerns and think about how the monopolized internet services could be put in the public domain, and guided by open-source protocol.

One immediate benefit of this approach: the incessant commercial pressure to collect every possible bit of information on users to better manipulate them would be undermined. It would be far easier to have a regimen with standards closer to what was imagined by the engineers who created the internet: power would be in the hands of the users, who would control their own digital fate, rather than in the hands of giant firms that are mostly unaccountable ... except to their investors.

### **Third Proposal: Treat Journalism Like a Public Good**

Perhaps the greatest irony or unexpected consequence of the internet has been that, notwithstanding all its democratizing contributions, it has not ushered in a Golden Age of journalism and culture. Instead of unlimited quality and quantity, the internet

has eliminated most of the resources that once went to support content production. What I write in this section applies to the entirety of culture, but I will focus specifically on journalism.

As an institution, journalism is in freefall collapse in the U.S. There are vastly fewer paid reporters and editors than there were a generation ago, and it is especially striking when you consider how much the population has grown in that time. Most newsrooms look like the Polish countryside in 1945. Much of what government does, and government's interactions with commercial interests, receives much less coverage than they did in the past. Most elections are uncovered, and what paid campaign journalism remains hardly makes one pine for more of the same. This process began before the internet, but the internet has accelerated the process and has made it permanent.

Why is this a problem? All democratic theory, as well as the specific history of the American republic, is premised on the idea that democracy requires an informed, participating citizenry, and such a citizenry can only exist with strong and vibrant journalism. If such journalism does not exist, our republic and our freedoms cannot survive in any meaningful sense. It is not an exaggeration to say that this point was an obsession for the nation's founders, in particular Thomas Jefferson and James Madison (McChesney, 2013; McChesney & Nichols, 2010).

Why is journalism disintegrating? Commercial interests have decided that journalism is no longer a viable investment, and they are jumping ship. When Jeff Bezos reached into his spare change jar to purchase the *Washington Post* for \$250 million in 2013, he paid perhaps 5% of what the purchase price would have been in 2000. Ironically, for the past two decades, as the commercial interest in journalism has shriveled, the conventional wisdom has been that the internet would eventually replace dying old media with digital commercial journalism that would likely be far superior to what it replaced. We just had to be patient and let good old Yankee ingenuity, magical technologies, and the profit motive solve the problem.

But that hasn't happened, nor will it. Indeed, what remains of paid journalism in the U.S. is disproportionately in "old media." The internet has been a total flop. If anything, by giving the illusion of an information rainforest with every Google search, it has made people oblivious to the actual information desert we increasingly inhabit.

Why is that? Advertising provided the vast majority of revenues for journalism in the twentieth century and made doing news media commercially lucrative. Advertisers needed to help pay for journalism to attract readers/viewers to news media who would then see their ads. That was the deal. Advertisers supported the news because they had no other choice if they wished to achieve their commercial goals; they had no intrinsic attachment to the idea of a free press. The rise of advertising as the primary basis of support prompted the development of professional journalism, in part to protect the content of the news from direct commercial influence; advertising generally was regarded as a necessary evil for the subsidization of journalism.

But those debates are now passé. In the new era of smart or targeted digital advertising, advertisers no longer place ads on specific websites and hope to appeal to whoever might visit the website. Instead, they purchase target audiences directly and place ads through internet ad networks that locate the desired target wherever they are online. *Advertisers no longer need to support journalism or content creation at all.* This is probably why Rupert Murdoch, the greatest corporate media visionary of our times, abandoned his iPad/smart phone news venture, *The Daily*, in 2012; it is definitely why the *Guardian*, one of the most visited and venerated news websites in the world, concedes that it has no idea how it can support its operations when and if it is forced to rely upon internet revenues.

Advertising gave the illusion that journalism is a naturally, even supremely, commercial endeavor. But when advertising disappears, journalism's true nature comes into focus: it is a public good, something society requires but that the market cannot provide in sufficient quality or quantity. Like other public goods, if society wants it, it will require public policy and public spending. There is no other way.

This evidence points overwhelmingly in this direction. Every year the magazine *The Economist* ranks all the nations of the world according to how democratic they are. Every year those nations that top the list are invariably the nations that spend the most per capita on public and community media. Freedom House, another mainstream organization, annually ranks all the nations of the world in terms of how free their press systems are. Government censorship is the single threat Freedom House is most concerned about. Every year the same nations that rank atop *The Economist's* list rule Freedom House's list of the freest and best press systems. The truth is this: in democratic nations, journalism subsidies tend to make the press more diverse and dissident and critical of the government in power. Like education, it is a public good, and, as with education, the more resources that are devoted to it, the better it will be, everything else being equal.

There is one outstanding question: How did the U.S. have a press system that was the envy of the world in the nineteenth century prior to the advent of mass advertising? It did so by having massive postal and printing subsidies for newspapers, which made the cost of production so low that there were many more newspapers per capita than anywhere else in the world. In the first century of American history, our politicians did not know the term "public good," but they treated the press in precisely that manner.

If we are going to remain a republic, we need journalism, and that requires massive public support. All attention should be on devising and debating the sorts of policies and subsidies that would produce the optimum results and prevent any form of government censorship or favoritism. It is a solvable problem, but only if we are willing to face the issue honestly.

One idea I like: Dean Baker's notion (which I have embellished) of letting every American over the age of 18 direct up to \$200 every year to any nonprofit medium of his or her choice. The only conditions would be that the recipient be a recognized nonprofit, that the recipient take no commercial advertising, and that whatever is produced by the subsidy be posted online immediately and enter the public domain.

It would not be protected by copyright. This would amount to a \$30 billion public investment with no government control over who gets the money. This would promote all sorts of competition as well, as entities would be competing for the monies.

There are probably many other ways we could support a great free press system (and a great culture) in the digital era. It is high time to start that discussion.

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