Internet Filtering

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Senator Conroy’s Proposal

- Is *just* a proposal: Like all potential policies, it has benefits and costs
- Evidence-based policy development is input for the Regulatory Impact Assessment process which involves Cost-Benefit Analysis
- Rigorous, transparent Cost-Benefit Analysis of Senator Conroy’s proposal is required
- Rigorous, transparent Cost-Benefit Analyses of alternative policies to Senator Conroy’s proposal are necessary
Cost-Benefit Analysis

- Internet regulation is not just about technology
- Cost-Benefit Analysis needs to be done in the following areas:
  - Technical
  - Economic
  - Social
  - Political
  - Legal
- Each policy alternative will have different strengths and weaknesses in those areas
- Different stakeholders will place different weights on those areas
Modalities of Regulation

• Law
• Architecture – software code
• Norms
• Markets
• Transaction Costs
Transaction Costs

- Ex ante: Search, selection, negotiation
- Ex post: Enforcement
- Transactions only occur when the benefits of the transaction are greater than the transaction costs incurred to do so
- The Internet massively lowers certain transaction costs, particularly search costs for content that wants to be found
Static vs Dynamic Efficiency

- Static Efficiency is what we usually think of as “efficiency”, ie building a system which can produce the most of “X” in a period of time with the fewest inputs
- Static efficiency is innately conservative: optimising the production of “X” makes it hard to switch to producing “Y”
- Dynamic efficiency is innately progressive: it focuses not only on producing “X” today, but on being able to efficiently switch to producing “Y” tomorrow and “Z” the day after
Internet filtering

• Internet filtering is a relatively static form of regulation
• Compare the transaction costs of the filter operator vs the target
• The target: low TCs to change ISP, IP address, register a new domain name, rename files, adopt or build new Internet protocols
• The operator: high TCs to respond to the Target’s behaviour
• Static policies are ineffective at resolving dynamic problems: they can’t win the arms race over time and just fall further behind (ie require more and more money)
Internet regulation

- Truly “protecting the children” requires more than symbolic ineffective gestures
- If you are going to spend this much money on any policy:
  1) define explicitly what the policy is designed to achieve;
  2) do Regulatory Impact Assessments and Cost-Benefit Analysis of a range of policy alternatives
  3) understand the difference between static- and dynamic-efficiency regulatory alternatives
### Australia’s Maginot Line?

<table>
<thead>
<tr>
<th></th>
<th>France’s Maginot Line</th>
<th>Senator Conroy’s proposed Internet Filter</th>
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<tbody>
<tr>
<td>Expensive to build</td>
<td>Over $1 Billion; rest of military weakened</td>
<td>$$$; money better spent on police investigations and user education</td>
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<tr>
<td>Built to fight yesterday’s war</td>
<td>WW1 trenches: defence = fewer casualties</td>
<td>Customs interdiction of prohibited content at border</td>
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<td>Beloved by private industries for $$$ construction &amp; maintenance contracts</td>
<td>Concrete, Artillery, Munitions</td>
<td>Computer Hardware &amp; Filtering Software companies</td>
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<td>Ignored Δ Transaction Costs caused by new technologies</td>
<td>Moving many troops over broken ground</td>
<td>Use of new protocols by users and suppliers, etc</td>
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<td>Once built, critical infrastructure became national security risk</td>
<td>French overconfidence / Germans bypassed forts</td>
<td>Monoculture ecosystem = single point of failure / In crisis, foreign hackers / govts seize control of filters or DDoS</td>
</tr>
<tr>
<td>Static or Dynamically efficient?</td>
<td>Static</td>
<td>Relatively static</td>
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<tr>
<td>Defeated / Outmoded by:</td>
<td>Blitzkrieg: lightning war on ground and air</td>
<td>Internet users adopting new protocols / technologies</td>
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<td>Symbolic or truly capable of achieving policy objective?</td>
<td>Symbolic - French citizenry not protected</td>
<td>Symbolic - Australian citizenry unlikely to be truly protected</td>
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