

The Unintended Consequences of Internet Regulation

Over the last few years, there has been an increasing drumbeat for greater internet regulation. But even the most well-intended policy approaches may have completely unexpected negative consequences that may outweigh the benefits sought by the regulation in the first place. Those benefits can be difficult to achieve and difficult to measure, while this paper finds that such regulations frequently have a negative impact on investment in covered internet companies, with declines ranging from 15% to 73%.

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Germany

The “Network Enforcement Act” or NetzDG, which compels large websites to remove content on short timelines, appears to have significantly reduced investment in social media companies compared to similar markets like the UK and France.

Pakistan

A 2021 set of regulations requiring rapid content removal by websites has sparked serious concerns about censorship as well as the impact on global investment in Pakistani companies, contradicting the government’s other efforts to promote growth.

China

A government crackdown on “celebrity” internet CEOs, executed in part via new laws and regulations ostensibly focused on issues like antitrust and privacy, appears to have resulted in a drastic reduction of investment in internet companies.

Australia

A reversal of fortune for the once-growing tech sector coincides with a series of court decisions that allowed plaintiffs to hold websites liable for third-party content. In the years since, funding of internet startups has quickly and steadily declined.

United States

2018’s FOSTA-SESTA law amended the intermediary liability protections offered by Section 230. It was followed by a noticeable decline in late-stage investment in social media, while also failing to achieve its stated objectives.

India

Rather than causing a reduction in social media investment, India’s 2021 rules related to online intermediaries became a protectionist tool, and correlated with surging investment in government-friendly platforms such as the Twitter-like Koo.

Indonesia

Following a series of laws that have already been called out for abuse and censorship, the government recently issued several regulations that enable content removals and the blocking of entire websites. The full effect of these rules remains to be seen.

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