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## Can “flexible broadband pricing” fix the digital divide?

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For Clinton administration economic advisor Robert J. Shapiro, the [broadband](#) powered Internet has been something like an all-you-can-eat restaurant, where everybody pays the same tab, no matter how much they consume. But of late the bistro’s owners have discovered a rather disturbing trend. “There’s some small percentage of its customers who come in and consume five desserts, six desserts, seven desserts, and three main courses,” he explains. “People with really big appetites.”

So what do they do next, the proprietors ask themselves. “We’re going to have to raise our prices to finance this extra consumption by these people,” Shapiro says they decide. But: “Do we ask everybody to pay more money? If we do we’re going to lose a lot of our customers, or not attract more customers who would have eaten a normal amount.”

The solution is simple: if you eat five desserts, you pay a little more, they conclude. “Well, if you represent twenty percent of all broadband users and you’re going to consume eighty percent of bandwidth,” Shapiro concludes, “then economically you should, the most efficient result is, that you pay a little more.”

If you’ve followed debates over broadband pricing and network management over the last few years, you’ve probably heard something like this analogy at some point. But Shapiro and former Federal Reserve economist Kevin A. Hassett at the Georgetown Center for Business and [Public Policy](#) have given it a somewhat different spin, arguing that some people paying a little more is the solution to bridging the digital divide.

“If costs are shifted more heavily to those who use the most bandwidth and, therefore, are most responsible for driving up the cost of expanding network capabilities, the digital divergence among the races and among income groups can be eliminated much sooner,” they write. In fact, their new study projects that if the biggest bandwidth consumers pay more of the bill for network expansion, almost all Americans will adopt some kind of broadband service by the second half of the next decade. But without embracing that policy, the study warns, 13 percent will not subscribe, even among consumers who earn \$75,000 or more.

Digital delay

Shapiro and Hassett suggest that while the country has made some progress in closing the divide since the [Department of Commerce](#) first identified the problem in 1995, this nasty recession we’re in has slowed the good news down, at least [for the moment](#). Broadband adoption grew only slightly for African-Americans between 2008 and 2009, they say (43 to 46 percent growth so far), while among whites it has jumped from 57 to 65 percent.

Citing Pew surveys, the authors note that [high speed Internet](#) penetration is still heavily skewed, with about 88 percent of those in the \$100,000 plus bracket range having access, while only slightly more than half of \$20 to \$30k households signed on. Price is the strongest determinant of broadband adoption, they say, and lower income consumers are particularly sensitive to changes in subscription rates, which have risen slightly of late. This hasn’t stopped continued broadband account purchasing, they note, but has probably slowed it down.

“The link between prices and broadband adoption suggests that higher prices for all consumers will slow the drive to universal broadband and expand the gap that now separates white from African-American and the less affluent from wealthier citizens,” they suggest.

Meanwhile ISPs are under big pressure to keep up with the growing demand for video and audio—the investment price tag for needed expansion costing as much as an extra \$300 billion over the next two decades, they predict (Shapiro and Hassett took their data here from a 2007 U.S. Internet Industry Association study).

Flat rate = flat growth

So how should broadband rates be adjusted to fund this investment price tag? Shapiro/Hassett’s economic projections conclude that a “flat rate” pricing model gets the country 79.4% penetration for people under \$30k by 2017, and 86.4% for

people over \$75,000 in the same year. But in a scenario in which “80 percent of the additional cost [is] allocated to the 20 percent of very [high bandwidth](#) users,” even lower income household broadband adoption will rise to 98.5 percent in 2017.

“To the extent that lower-income and middle-income consumers are required to pay a greater share of network upgrade costs, we should expect a substantial delay in achieving universal broadband access,” the study concludes. “Our simulations suggest that spreading the costs equally among all consumers—the minority who use large amounts of bandwidth and the majority who use very little—will significantly slow the rate of adoption at the lower end of the income scale and extend the life of the digital divide.”

At a press conference Georgetown held for the study on Tuesday, we asked Shapiro exactly how he thought ISPs should distribute future billing among consumers. “The most important thing to me is flexibility,” he told us. “Internet providers can better determine than I can the particular model that works best. What we need, frankly, is an economic and regulatory environment that allows that flexibility to our broadband providers, because if we don’t, we may significantly slow the spread of broadband.”

The problem for regulators, of course, will be extending to ISPs the kind of flexibility that encourages investment, and not the kind that invites the proposed [price gouging](#) data caps that [Time Warner Cable](#) finally withdrew after weeks of public outrage.

(By Matthew Lasar | [arstechnica](#))

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