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# Tiered data plans can help close digital divide

by Robert J. Shapiro

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*Editors' note: This is a guest column. See Robert J. Shapiro's bio below.*

The familiar, one-size-fits-all flat monthly fee for Internet use is [likely headed for the technology junk pile](#)--and it's a good thing for most consumers.



One fee for unlimited broadband access--and the same fee for everybody signing up for a particular service--helped drive the extraordinarily rapid spread of broadband, especially as those fees declined over the last decade. But broadband has changed the Internet, particularly by [enabling the spread of bandwidth-intensive video and voice applications](#).

New analysis shows that as Internet providers ramp up their investments to accommodate the surge in bandwidth demand, the old, one-price-for-everybody model would slow our [progress toward universal adoption](#), especially by lower-income Americans.

The first reaction of many Internet users to this news may well be disbelief. How can it be that a pricing approach that has worked so well for so many years can suddenly become obsolete and even counterproductive? The answer is that technological advances have changed what many of us do online, which, in turn, has changed the economics.

A techno-ecosystem once dominated by e-mail and text now is increasingly characterized by high-definition video that claims up to 1,000 times as much network capacity and bandwidth as simple text. The way we currently pay for the infrastructure required to keep the network humming also will have to change.

**Those who consume**

As with virtually every other good and service in our economy,

**more bandwidth--or at least those who claim many times the bandwidth of the average Internet user--will have to pay a little more. Otherwise, the price for everyone else will increase so much that lower-income Americans will be priced out of broadband.**

those who consume more bandwidth--or at least those who claim many times the bandwidth of the average Internet user--will have to pay a little more. Otherwise, the price for everyone else will increase so much that lower-income Americans will be priced out of broadband.

To keep pace with the fast-growing appetite for advanced video and other data-hungry Internet services, Internet service providers expect to invest an additional \$300 billion or more over the next 20 years to expand their infrastructure. The resources for this additional investment have to come from broadband users--subscribers, content providers, or both.

A new [analysis by Kevin Hassett and me](#) (PDF), supported by the Georgetown University Center for Business and Public

Policy, has established that if these costs are recovered through the old, flat-fee pricing models that assess each household equally, prices will go so high that we will be unable to achieve universal access to broadband in the next decade.

With this flat-rate pricing approach, for example, almost one in five African Americans would still lack home broadband connectivity in 2020. A nearly comparable share of Hispanics and lower-income white Americans also would remain offline. In the face of rising bandwidth demand and the rising cost to accommodate it, the flat-fee pricing approach will perpetuate digital divides based on income, race, and ethnicity.

There is an alternative which, our analysis found, can achieve virtually universal broadband adoption by 2018. This alternative is a flexible-pricing approach that would enable ISPs to recover the bulk of their additional infrastructure investments from the providers of bandwidth-intensive content and the small share of consumers--online gamers, for example, and those who watch high-definition TV, movies, and videos online for hours every day--who claim a disproportionate amount of broadband capacity.

Two of the world's most wired societies, Korea and Norway, have adopted variations of this approach, and thereby managed to substantially expand their infrastructure commitments without raising prices for most broadband users.

Moreover, President Obama's goal of achieving universal broadband adoption, which such flexible pricing can promote, is quickly becoming an essential factor in advancing economic opportunity. Increasingly, job openings are posted only online, and the ability to work productively in offices and factories dense with Internet and information technologies, is

virtually a necessity for those intent on improving their economic position.

Beyond that, access to information on educational opportunities, political activities, health care, and even many government services increasingly depends on broadband access. As the [Federal Communications Commission prepares its recommendations](#) for meeting the president's goal, it is critical that it recognizes that future broadband access, especially for many minority and lower-income households, may well depend on the ability of ISPs to flexibly price access.

The process of change has already started. Several broadband providers recently initiated trials of [usage-based pricing](#) in selected areas, to help accelerate broadband adoption in a way that can finance the infrastructure build-out required to avoid online congestion.

Apart from all of these social and economic concerns, it also makes no sense to preserve a flat-fee pricing system that effectively forces the vast majority of Internet users to subsidize a small minority of high-bandwidth consumers and content providers. The burden on policymakers is not to mandate an end to flat-fee pricing but simply to preserve the ability of ISPs to adopt new pricing approaches that can maximize consumer benefits.



Robert J. Shapiro, undersecretary of commerce for economic affairs under President Clinton, is a fellow of the [Georgetown University Center for Business and Public Policy](#) and chairman of [Sonecon](#), an economic-advisory firm. He has advised telecommunications companies, including AT&T.

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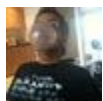
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