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## **Socializing Broadband: A Regulatory Brezhnev Doctrine**

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## Dirigisme My Dear...

On Monday, July 9 French Prime Minister Lionel Jospin announced a \$1.5 billion plan to bring all French households high-speed Internet access within five years. Further, France plans to spend \$180 million to bring wireless access to the eight percent of the French population that currently lacks such access. Likening the project to past infrastructure build-outs for rail and electricity, Jospin set as his policy goal “to bring the information age to everyone.”

In taking this route Jospin is following in the footsteps of France’s long tradition of dirigisme—direction from the top—in making policy. France did precisely this in the 1980s with its famous Mini expansion of universal service enumerated in section 254(c)(1) is that federal regulators, in considering whether to expand universal services to include advanced services (which encompass switched two-way broadband data and video), “shall consider the extent to which such telecommunications services....(B) have, through the operation of market choices by customers, been subscribed to by a substantial majority of residential customers.”

Products and services can pass through as many as four stages upon entering the marketplace: novelty, luxury, convenience, and necessity. A good can be widely distributed and not be proclaimed a necessity worthy of market socialization—neither television nor radio are subject to universal service. (Television penetration, at 98 percent of households, exceeds the telephone penetration figure of 94 percent, despite telephony being subject to universal service; the reason is that the economics of broadcast video are superior to those of telephony as to remote areas.) Broadband Internet access is still less than five years old, and has

passed from novelty to luxury. Price declines ultimately will make it a convenience if market forces are allowed to work.

An argument that broadband should be declared a social necessity is premised upon the much touted “digital divide,” one considerably more popular with the prior Administration, and the prior FCC, than with either today. (Commissioner Powell is on record as saying that by the same rationale he is on the wrong side of a “Mercedes divide.” He has since backpedaled, but clearly he retains a preference for market diffusion.) The “divide” rationale has several glaring flaws.

## Blacks Gaining Ground

First, recent published numbers show minorities gaining ground on whites as to Internet access (no broadband breakdown is available). One Internet marketing firm, comScore, has recent survey data showing black online use growing at triple the rate for whites, with 51 percent of blacks and 59 percent of whites online. By income, 83 percent of those above \$75,000 are online, compared to 74 percent of those in the \$50,000 - \$75,000 bracket and 36 percent of those making less than \$25,000 (a segment that grew 28 percent last year).<sup>1</sup> Rural and inner-city household Internet access penetration in 2000, at 38.9 and 37.7 percent respectively, topped urban penetration’s 27.5 percent for 1998. Urban access hit 42.3 percent in 2000, only 8.7 percent more than rural and 11.2 percent more than inner-city numbers. Similar patterns exist for computer ownership.<sup>2</sup> A GAO study found that income was the only variable that correlated at a statistically significant level with penetration level differences (race, national origin, employment and education did not).

The GAO also found that some 80 percent of those with dial-up access would not pay

an additional \$10 per month for broadband access.<sup>3</sup> Which raises a question: If Internet access is so much a “necessity” of modern life as to warrant its being socialized as a universal entitlement, how come the great mass of users, many of whom can easily afford to pay an additional \$10 monthly, are saying “thanks but no thanks?” Perhaps the perception of the Internet as a necessity is one shared by Nethheads and policy wonks, but not most of their fellow citizens. Which argues for the wisdom enshrined in the Telecom Act’s “substantial majority” criterion for considering extension of universal service entitlements.

Second, as CATO Institute’s Adam Thierer has argued in detail, PCs and Internet access prices are now well within reach of anyone who can afford a decent television. PCs well under \$1,000 are on the market, and vendors frequently provide discounts for customers signing up for Internet access upon purchase, lowering up-front costs to around \$600.

## Narrowband Already in 95% of American Homes

Third, some 95 percent of American homes have narrowband Internet access available (typically 28.8 or 56 kilobit-per-second, whereas broadband typically starts at 640 kilobit speeds) Thus, online access is already near-universal, via operation of the market and without government intervention.

Finally, and most significant of all: the real digital divide in this country is not one of possessing computers or having access to the Internet; it is a divide between those who can divide digits without aid of a digital device and those who cannot. Put another way, the digital divide is in reality an educational divide. To use computers and the Internet productively requires literacy and numeracy. Not that one need

recite Shakespeare, or perform differential calculus. Rather, that one needs basic educational and cultural literacy to tap the abundance of the information age.

As it happens, survey data shows (no surprise) that Internet usage varies in accordance with user educational levels. Better educated users focus on career advancing uses; the less educated prefer fun and games.<sup>4</sup> Literate use of the Internet, as with anything else, requires literate users.

## One Minute Wait Worthy of Federal Redress?

Keep in mind, as noted above, that those lacking broadband access already have Internet access, at slower speeds. While a 56 kilobit modem access speed is but a fraction of DSL or cable modem access speed, so long as one is not downloading movies it is adequate for many purposes.<sup>5</sup> Does waiting a minute for an airline website to load constitute deprivation worthy of federal redress, because the 7 percent of Americans with broadband access get the same web page in a few seconds? Is someone truly a “have-not” without instant access?

The “digital divide” is disappearing. What is (alas) not disappearing is illiteracy. As between two 18-year olds, one literate sans computer, the other illiterate but an ace at playing Internet air combat games, who is the real “have-not?”

Let the issue of socializing broadband be deferred. As the Telecom Act recognizes, market penetration of advanced service is a prime factor in establishing genuine social necessity. And socialization can deter market growth: in Maryland, Starpower Communications, a cable provider, pulled out of Prince George’s County because as a condition of winning a franchise the county sought

\$400,000 in technology improvements.<sup>6</sup>

The telephone had reached roughly a third of Americans when in 1934 the Communications Act preamble embraced universal service; even then, it was not until more than a decade had passed that the FCC and state commissions began expanding universal service subsidies. At 9 percent current market penetration broadband has a long way to go to reach the Telecom Act's "substantial majority" criterion. Promoting market entry is the best way to get there. The twentieth century witnessed the decisive triumph of market economics over socialism; the twenty-first century should not be marred by socialism's resurrection. Chairman Brezhnev's Doctrine should be junked in favor of Adam Smith.

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<sup>1</sup> Bells' device carried sound waves on sunlight reflected off a mirror onto a telephone receiver with a selenium cell.

<sup>2</sup> Analysis: Sailer, Steve, The Web's true digital divide, Tuesday 17 July 2001, 13:39 ET <<http://www.vny.com/cf/news/upidetail.cfm?QID=203267> >

<sup>3</sup> Leighton, Wayne A., Broadband Deployment and the Digital Divide, CATO Institute Policy Analysis, p. 14 (Aug. 7, 2001).

<sup>4</sup> Id., p. 16.

<sup>5</sup> Id.

<sup>6</sup> The FCC, for its part, defines "broadband" as access above 200 kilobit speed. Cable Firm Pulls Plug On Deal in Maryland, Washington Post, P. B1 (Aug. 27, 2001).

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