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## Press Release

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### NEW PHOENIX CENTER ECONOMIC STUDY DEMONSTRATES THAT “FREE DATA” PROGRAMS INCREASE BROADBAND ADOPTION WITHOUT ATTENUATING INVESTMENT INCENTIVES

#### *“Free but Limited” Programs Also Provide Consumers with Key “Connectivity Insurance” to Basic On-Line Services During Periods of Financial Distress*

WASHINGTON, D.C. – For the last twenty years, promoting broadband adoption has been a focal point of communications policy around the world. Despite significant advances, there is still much work to be done. To help bridge this adoption gap, in many countries private communications companies are now offering services at deeply discounted prices or even for free. Facebook’s “Free Basics” program, for instance, helps to address the awareness, digital literacy and affordability barriers to adoption by offering consumers in more than 45 countries free access to basic on-line services such as communication tools, health services, educational information, and job tools. And, by increasing digital awareness, many of the program’s users upgrade to fee-based services to the broader Internet in a short amount of time. Nonetheless, questions are being asked about the propriety of the basic connectivity offered by such programs.

In a new economic analysis released today entitled *Private Solutions to Broadband Adoption: An Economic Analysis*, the Phoenix Center demonstrates that the price-quality variations of such programs are economically sensible, if not necessary, to address the key barriers to adoption without attenuating investment incentives. The Phoenix Center’s economists further demonstrate that such “free but limited” programs can increase adoption by “smoothing” Internet consumption over time and present econometric evidence of “connectivity insurance,” keeping consumers on-line during periods of financial distress.

“The economics are straight-forward,” according to study co-author and Phoenix Center Chief Economist Dr. George S. Ford. “By offering a sufficiently different ‘free basic’ service from market-priced services, a carrier can prevent the defection to the basic service by subscribing, more experienced users. However, if the carrier cannot freely set the ‘quality’ of the free service, then consumers with low demand, either due to a lack of awareness or income, will not be served. With such a ‘free but limited’ program, all types of consumers can experience the benefits of on-line access, increasing consumer surplus and infrastructure investment.”

“Such programs also serve as key connectivity insurance to basic on-line services for consumers experiencing financial distress who may not be able to pay for market-priced services,” said study co-author and Phoenix Center Senior Fellow Professor T. Randolph Beard. “If non-

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users are reluctant to adopt the Internet for fear of service interruption due to overall lack of affordability, 'free but limited' services can increase adoption by 'smoothing' Internet consumption over time and increasing the present value of Internet access for users."

"An effective policy for expanding broadband adoption must expose consumers to broadband service, do so at very low prices (or even free), and yet secure sufficient revenue for network deployment, maintenance, and upgrades," said study co-author and Phoenix Center Senior Fellow Professor Michael Stern. "Thus far, despite much effort and discussion, no government has found an effective solution to this complex problem. However, the private sector solutions outlined in our paper appear to be up to the task."

A full copy of PHOENIX CENTER POLICY BULLETIN NO. 38, *Private Solutions to Broadband Adoption: An Economic Analysis*, may be downloaded free from the Phoenix Center's web page at: <http://www.phoenix-center.org/PolicyBulletin/PCPB38Final.pdf>.

*The Phoenix Center is a non-profit 501(c)(3) organization that studies broad public-policy issues related to governance, social and economic conditions, with a particular emphasis on the law and economics of the digital age.*