Anger Over Time Warner Pricing Raises Questions

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Article:

Time Warner Cable has backed down, at least for now, from its attempt to introduce tiered pricing for Internet service in Greensboro. The company announced earlier this month that it would test the new pricing model here and in three other cities around the country.

Instead of a monthly fee that allows unlimited usage, tiered pricing would establish rates for usage up to 10, 20, 40, and 60 gigabytes (GBs) of data transfer per month. Other usage levels were proposed as well. Going over one's usage "cap" would trigger a fee of $1 per GB.

The outrage generated by the announcement was impressive.

Blogs exploded with righteous indignation, commentators opined, editorials disapproved. And TWC blinked, announcing that it would delay the introduction.

The protesters accused TWC of greed, in particular because the move might drive movie-watchers to its cable television service. That might be true. But nearly every company we can think of tries to steer customers to more profitable lines.

The protesters claimed that tiered pricing is unfair. This is equally dubious, because a flat monthly rate means that high-volume users are subsidized by low-volume users. I'm sure heavy users would hate to have their subsidy taken away, but that's hardly what most of us mean by "unfair."

To be sure, consumers like flat rates, because it's nice not to have to worry about the bill rising with each additional pound, minute or GB. We like the all-you-can-eat buffet. And yet consumers are happy with tiered pricing for things like cell phone service. We choose a plan, we pay a monthly fee based on a level of usage, and if we go over the "cap," we pay a per-minute fee. Sounds familiar, doesn't it?

The most interesting argument against tiered pricing is that it will hurt high-tech entrepreneurs who use the Internet intensively. Apparently such businesses shouldn't have to pay for that intensity. By that reasoning we should pay part of their light bills as well.

Of course it makes sense to lower some hurdles for entrepreneurs. That's why we have publicly funded business incubators and tax breaks for small businesses. But these are examples of public subsidies. And that leads us to the root cause of the outrage.

We've begun to see the Internet as a part of our economic infrastructure. Of course Internet access isn't as important for human survival as, say, food. But grocery stores operate in highly competitive markets that give us some comfort about the fairness of their prices. The market for cell phone service, home of tiered pricing that we don't mind, is also highly competitive.

In contrast, the cable modem is the fastest game in town, and there's only one way to get it: through your local cable monopoly. In many cities, cable operators compete, and guess what? Prices are lower and quality is higher.

Therefore, one solution is to encourage competition among cable providers. That might be tough in smaller cities, however. You tend to see competitive cable in big cities like New York and Chicago.

Another approach is to acknowledge that in the New Economy, Internet access is more like a road network or a water system than a can of soup. Fairness matters for infrastructure access, and the fairest way to provide it is via government ownership and control.

If a government solution is unappealing and competition is too hard to foster, then the only hope for the protesters is that the current system of state regulation will preserve the subsidy for heavy Internet use.